Tourism

Tourist industry under-rated, survey shows

by Gordon McLauchlan

NEW Zesland community leaders and even people working in the industry substantially under-rate the importance and size of tourism, according to a survey being conducted by Auckland University's business administration department on behalf of the National Travel Association (NTA).

Community leaders underestimated the number of visitors to New Zealand and the number of New Zealanders travelling overseas by about 20 per cent, induatry members by about 10 per cent, and ordinary members of the public put the figure around 30,000 to 40,000 in each direction — about 10 per cent of the actual figures.

These are some of the details that will be released during a May 14 media briefing in Auckland by those involved in the $50,000 research project.

One suggestion is that New Zenlanders underestimate the number of visltors here because so many of them are New Zealand look-alikes — Australians snd Americans.

It can be inferred also from the information assessed so far that New Zealanders don't want tourism to be sn industry separate from their own existence — confined, that is, to tourism conduits end resorts.

Says unlversity researcher Rae Roberts: "New Zeslanders reslly do wsnt to have s bit more contact with tourists. They are even quite prepared to share in tourism with vlsliors."

Overwhelmingly, New Zealanders assume that the major attraction here for tourists ia to see our "beautiful countryside".

Workshops will be held in Aucklsnd during the next few weeks to discuss the initial findings — although there will be no prizea fot those who predict the fairly mundane information the research team has found so far.

But the hard part is still to come — an economic assesament of the importsnce of tourism to New Zealand, and whst development would be desirable as s result. And, even hsrder, an anslysis of the industry's management style — its techniques and informstion systems.

The resulta will be released to workahops during this year but the findings will all be pulled together in a major report to be presented to the NTA next March — not in two years as the NTA says in its press release.

The project has been billed as the first blg tourism strategy project for the prlvate aector of the industry.

Its value cannot be assessed in sdvance but there is some scepticism within the industry about whst importance such s strategy can have unless the Governmeot — sponsor of a number of previous tourism research projects — endorses it, because most of the tourism infrastructure is either owned by the Government or is dominated by its policy.

In the meantime, tourism studies are in faahion. Auckland Moyor Colin Kay came back from a Singapore viait a few months ago and prepared a report for the Auckland Regional Chsmber of Commerce with a recommendation that an Aucklaod tourist promotion committee should be set up "to establish a long term tourism plan for Auckland".

Former Air New Zealand sssistant general manager and Pscific Area Travel Association life member Harold Dennis has agreed to chair s working part to prepare terms of reference.

Kay's report is not a lightweight ss many had expected from someone with limited experience in the industry. He suggests the Polynesian character of Auckland should be exploited more and thst the city should be marketed strongly to attract tourists from inside and outside this country.

It can be argued that few, if any, New Zealand cities have been adequstely promoted.

Millions in the kitty

EVEN sfter s publicity campaign in February, the Housing Corporation still has "several million dollars" available for extensioos to botels or motels (with tourist house licences), or for work upgrading such premises.

The money comes from a 3 per cent levy on the liquor turnover of taverns, is allocated by the Licensing Control Commission to the Housing Corporation which in turn has a confidential committee which gives advice on who should get how much for what work. It must be spent on the provision or upgrading of accommodation.

Since the money first became available in the early 1950s $13 million has been lent out and it is now coming in at the rate of around $2.5 million a ycsr. The going rste is 10 per cent on first mortgage and 11 per cent on second, which should attract borrowers.

The advisory committee has tended to direct the money to the hotels and motels that are middle-of-the-road in terms of tariff and grading.

Though it can make money avsilable for the construction of new premlses, it has tended to leave that kind of project in recent years to the Development Flnance Corporatlon.

The publicity campaign drew applications for more than $2 million but there is more avallsble.

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NATIONAL BUSINESS REVIEW

Incorporating Admark

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Inside

Erebus casts shadow over 747 marketing push

Economy class in the 747 . . . but upstairs is the real selling point

by Lindsey Dawson

IT'S s publicity man's nightmare. The srrival in this country of the airline's first Boeing 747 — which normally would add some desperately needed gloss to the airline's image — is being overshadowed by the uphesvsls of the Erebus report and its aftermath.

The first of the planes, which will launch a new era for the airline, will arrive in Auckland on May 29.

We haven't seen much publicity about it — but we will, promises the company's marketing services manager, Allan Dumbleton.

"There's no question of us going around with our tail between our legs," he said. "There's no slacking on the marketing front at all. In fact we're redoubling our efforts."

Air New Zealand will launch 747 sdvertising in print and on radio to coincide with the plane's arrival, and new television ads will be seen later.

"There's little we can do about that until we have the plane here," ssid Dumbleton.

Boeing is working on airborne publicity shots during test flying before the plsne's delivery — a service which is usually provided by manufacturers as part of the sales package.

Air New Zealand will continue to run its "fly the flag" slogan, along with "the Pacific's Number One", although some staff are known to be unhappy about the wisdom of doing so.

Bromhead's *Auckland Star* cartoon depicting a passenger asking at a sales counter for a ticket on "whatever's number two" didn't help the company.

And one airline staffer described as "totally insensitive" Television New Zealand's placement of the airline's ad straight after the first announcement of the Erebus report on the 6.30 news.

Air New Zealand is cagey about exactly what sort of advertising it will do to push the 747s because it doesn't want to give away too much to the opposition. But Dumbleton says it will be trying to get to the business traveller, pushing both first class and its new Pacific class, situated upstairs.

A recent survey of export executives found that most business travellers prefer to fly Air New Zealand, followed by Qantas and Singapore Airlines.

But there's no doubt that superior facilities for business travellers on foreign airlines with 747s would have lured many away, if Air New Zealand

Continued on Page 12

PPCS plans to dump 'hostile' CFM chief

by Klaus Sorensen

THE Primary Producers Co-operstive Society will try to dump Canterbury Frozen Meat Co chairmsn Ian McKellar.

The co-operative, reacting to the CFM board's unco-operative attitude towards its involvement, will oppose McKellar's position, and thst of one other director, at the extraordinary general meeting which it is calling for.

Aa *NBR* went to press, the co-operative board was redrafting its original requisition to the CFM board which sought an increase in the bosrd size from eight to 10.

The co-operative had plsnned to put two of its directora — in addition to the current PPCS nominee Brisn Cameron — on to the CFM board.

The new requisition will be put to the CFM's regulst board meeting set down for today. It will seek to have the bosrd size kept at eight directora, but with three PPCS nominees.

The co-operative plsns to stand John Acland sgainst McKellar, and its chief Ian Jenkinson, againat Ralph Satterthwaite.

The co-operative appsrently changed its attitude to board participatioo after highly critical comments were msde by CFM over the co-op's successful move to increase its CFM stake from 25 per cent to 38 per cent; and the CFM board's continued obstruction.

There havo beeo rumours that CFM might sttempt a merger with another compaoy to try to water down the PPCS' shareholding. This has prompted the co-operative directors to move quickly.

The original requisition sought two extra board seats to give the co-op three out of 10 directors, and an altersion to the articles of associstion whereby no additionsl shsres could be issued without shsreholders' consent.

The smended requisition was expected to be lodged with CFM on Friday after *NBR* went to press — in time for the Monday directors' meeting.

The stage is set for s full-scale takeover battle.

The existing CFM board haa two choices — quietly accommodate PPCS and its requirements, or fight tooth and nsil.

The board seema to be locked into the latter course, and late last week a mystery buyer continued to stand in the market for CFM sharea loog after PPCS hsd withdrawn.

The buyer, actiog through Renouf and Co, is thought to be the merchant bank, New Zealand United Corporation Ltd. It wsa still buying on Thursday, and prompting PPCS to re-enter the market to protect its position.

The PPCS experience with CFM contrasts to its relationship with Southland Frozen Meat, in which it holds 18 per cent.

The co-op's basic requiremeot la to try to overcome the intense compeltion for killing space at peak killing periods, and *NBR* understands the PPCS is "delighted" with the co-operation it haa received from SFM.

The PPCS apparently is also unhappy that the CFM has not approached it over marketing questions.

The PPCS is reputed to be one of the most effective international meat marketers operating out of New Zealand.

The week

Tasman's southern plans frighten local interests

by Ann Taylor

FORESTRY interests in Southland and Otago are apprehensive about Tasman Pulp and Paper Co Ltd plans to set up another Kawerau in the region.

And they are worried that the giant — part of the Fletcher Challenge combine — will use its tremendous cash resources to outbid local interests for land.

According to Odlins, which has been operating in the area since 1964, "Tasman has been offering more than our maximum in the areas we've been looking at, requiring us to do some rethinking".

"Tasman won't lock us out, but its tremendous cash flow enables it to go in to prime areas and pay much more than others," an Odlins spokesman said.

Tasman's director of forests, Ross Usmar, has been spending a lot of time in the area in which he was formerly conservator of forests for the Forest Service.

Addressing a Southland-West Otago regional council meeting, Usmar said the company was looking to buy 50,000 hectares in the area. *NBR* understands that Usmar would like to see a big plant there by the year 2000.

Besides the land purchase question, Southland forest companies believe Tasman will undercut prices paid to the Forest Service for timber supplies.

The Forest Service manipulates its prices in accordance with quantity and demand, and Tasman's long track record of cheap prices from the Forest Service suggests that its greater demand will undercut the $20.96 a cubic metre paid by Odlins and $15 a cubic metre paid by Rosebank Davies.

The Forest Service also has a sawmill in Otago, but it does not have to gazette its own prices.

Other operators are concerned that Tasman's establishment will head off the development of other companies as the wood resource becomes available.

Southwood is looking to the second stage of its three-part expansion. Its chipping operation is well established and the company is looking to set up a thermo-mechanical pulp mill to use more wood.

The third stage — a paper mill by the turn of the century — depends on wood supply and the demand that Tasman might wield.

Plans for the Southwood pulp mill apparently are well advanced, but alternatives to a thermo-mechanical plant are being looked at.

Odlins with a 41 per cent interest in Southwood has other interests in the area — sawmilling, chipping, timber and hardware retailing.

Not wanting to rely solely on the local Dunedin City Corporation or Forest Service to supply logs, Odlins has been looking "for some time" to establish its own forests.

Odlins has a major shareholding with the Development Finance Corporation in Southwood, which exports chips and is looking to a wood utilisation plant by 1984. Rosebank Davies and Barrow Box both have 9 per cent holdings and Fletchers has a 50 per cent holding in Barrow Box.

The consortium cannot, therefore, make plans without their intentions becoming immediately apparent to Tasman through the Fletcher interest.

But it's not all easy going for the forestry giant. Tasman expressed an interest in buying a 2300 hectare block of land. It was thwarted by the Dunedin City Corporation, which itself bought the land, adjoining another property owned by the corporation.

The city corporation exports logs to Japan and supplies logs to local sawmills. A long-term forestry development plan, prepared by a team of Rotorua consultants, has recommended an optimum size for the corporation of 12,000 hectares, of which it now has 10,500.

Usmar says Tasman "is looking at wood resources throughout the country". It is also looking at land for afforestation, but he says decisions will be made, at board level "when the time is ripe".

The week in brief

FEDERATION of Labour president Jim Knox, addressing the annual conference, rebuked the Labour Party for a lack of coherent policy and forecast that National will win the November election. Later in the conference he rounded on the press for its anti-union bias.

ANTARTICA's Mt Erebus claimed another victim, 17 months after the fateful DC10 sightseeing flight. Air New Zealand's chief executive Morrie Davis resigned and his hot seat will be occupied by his deputy John Wisdom from next month.

TWELVE other staff implicated in the royal commission's report have been suspended or switched to other positions. The airline is proceeding to challenge Mr Justice Mahon's "litany of lies" finding in the high court.

THE fate of the airline's directors, including its chairman Bill Mace, who appears to have been supplanted as spokesman by deputy chairman Des Dalgety, is as yet uncertain.

PARLIAMENT's public expenditure committee will investigate the loss-making airline's finances.

THE Broadcasting Tribunal in a decision rejecting a complaint on the use of "Lion Breweries" as sponsoring sports reports urged a comprehensive liquor advertising rule be substituted for the present unsatisfactory collection of statements.

IRELAND acquired another martyr in the centuries-old battle to oust the British. Convicted IRA terrorist and MP for Fermanagh Bobby Sands, 27, died while on hunger strike for political prisoner status. Riots ensued in Northern Ireland and a paint bomb exploded in the British Trade Commissioner's office in Christchurch.

PRIME MINISTER Rob Muldoon accused Australian premier Malcolm Fraser's press secretary, David Barnett, of souring relations between the two leaders. Barnett rejected the claim.

CONSUMERS Institute cites cases of "blatant profiteering" on apples since price control was lifted earlier this year. The Apple and Pear Board has already dumped 2000 tonnes of surplus fruit from this year's bumper harvest.

The week ahead

MONDAY: Employee Communication and Quality Circle seminar, Wellington.

Australian deputy prime minister Doug Anthony arrives for two days of CER negotiations.

Labour Party conference, Wellington, till Thursday.

WEDNESDAY: DRG (NZ) Ltd, AGM, Auckland.

NZ Trade Fair, Wellington, till May 23.

The week

Remote areas lose out in pricing policy change

by Allan Parker

PRODUCT distribution and pricing practices will be comprehensively reformed by the Government's decision to erode its common national pricing policy.

Consumers in the South Island and remote areas of the country can expect to pay more than those in metropolitan centres as a result of the Industries Development Commission's development plan for the packing industry being accepted.

Because most manufacturers are packers in their own right, the effect will be widespread and major. One company, for example, has estimated a cost differential as much as 20 per cent.

The packing and packaging material industry is uncertain about the exact implications of the study approval. But industry sources agree they are significant.

By implementing all but a few of the IDC recommendations, the Government has agreed that the industry should have a cost-containment formula applied to its operations. That formula allows import licences to be issued to provide relief for packers against cost disadvantages.

Trade and Industry Minister Lance Adams-Schneider, announcing the decisions last week, said: "Licences will be issued if it can be shown that domestic packing materials are in excess of 20 per cent above the duty paid into store of like imports.

"Suppliers of locally produced packaging materials (companies such as UEB and AHI) will also be given the opportunity to reduce prices through the issue of cost containment licences for their inputs."

Goods delivery for years has been based on a common national delivered price system whereby an Auckland supplier will charge the same amount for delivery to an Auckland or Haast customer.

But if the Auckland customer can import his packing requirements more cheaply than the New Zealand-delivered materials, severe distortions will emerge. And with nine ports throughout the country, the practice of the policy will be threatened.

An Auckland customer, with the largest New Zealand market on his doorstep, will be able to bring in cheaper imported materials direct to the city.

To compete, a packer who has previously spread the pricing load throughout the country will have to respond by either delivering to Auckland at the more efficient cost or use delivery prices to other centres to subsidise a competitive rate into Auckland.

The impact on regional areas and the South Island generally will be substantial.

Hastings-based Wattie Industries, for example, has already attacked any proposals that would erode the common pricing concept, which has been laid down specifically by the Government but has been tacitly supported by general policy decisions.

J Wattie Canneries managing-director Ray Wattie said: "Consumers in the more remote areas will have to pay considerably more for their food products. Pricing will vary from product to product, and area to area."

The cost containment formula, with its flow-on effects, reflects the IDC's continuing concern about inefficiencies in the national distribution chain.

And because a major part of its legal brief is the benefit of consumers, it has attacked what it sees as a key element in those inefficiencies that result in higher prices for consumers to pay.

That attack can be expected to continue; the cost-containment formula is embodied in the draft report of the commission into the plastics industry, for example.

Other plans have contained similar recommendations aimed at reducing or removing perceived inefficiencies of distribution throughout the country.

Clearly, the Government has agreed by accepting an erosion of common national pricing.

Pig farmers see double standard

PIG farmers are becoming concerned at what they claim are the Government's double standards.

Agriculture Under-secretary Rob Talbot will be told this week by the farmers' representative, the Pork Industry Council, that if protection is justified for wine, it can be provided for pig meat.

Since 1978, the Government has been phasing out tariffs on pig meat, especially from Canada, which has a continuing surplus. In return, it has eased restrictions on exports.

But pig farmers are facing soaring feed costs, a direct result of the Government freeing the barley trade from import and export restrictions.

Since realising in 1978 that its price support scheme was not working, the Pork Industry Council had been developing a marketing strategy to stabilise demand, chief executive David Dobson said.

That strategy was strengthened by the Government's non-interventionist attitude apparent in 1979. It led to the appointment of a marketing officer and a $750,000 promotion fund paying for the "bring home the bacon" and "trim pork" campaigns.

The latter campaign — launched in Auckland a few weeks ago — will soon be promoted nationally.

But while pig prices have climbed from the minimum levels of a year ago to 195 cents for bacon pigs and 247 cents for fresh porkers, feed prices ex mill have risen by a third to $300 a tonne.

"Pig producers do not object in principle to grain prices being linked to world prices," Dobson said.

But pig farmers object to paying world prices for their inputs while their prices are effectively pegged to levels caused by the Canadian surplus.

United States indicators quoted by the council expected pig prices in North America to rise to $60 a 100lb deadweight this year.

That expectation caused pig farmers to maintain production, and the result is an unchanged price of $40 a 100lb.

Because the United States has its own surplus to contend with — which is also depressing beef prices — Canada is looking for alternative markets. The council refrains from accusing the Canadians of dumping, but it will ask Talbot for the reintroduction of tariffs on imports.

Lower shipping costs, the long way round

by Warren Berryman

INCREASING numbers of traders are shipping goods to and from the United States via Japan to avoid paying the high freight rates charged by the US-New Zealand shipping cartel.

Trans-shipment via Japan nearly doubles the distance and adds 10 to 14 days to transit time. But cartel freight rates can be cut by about a third.

An automotive supplier wanting to ship a 20ft container of parts from Los Angeles to Auckland was quoted a rate of US$6500 by the cartel.

He shipped via Japan at a rate of US$3500 after turning down a slightly higher quote of US$4060.

This importer brought in an identical containerload of goods on a cartel ship last November for $4300. Six months later, the rate had increased to $6500.

Last year the cartel's rate for the same containerload was about $3500, he said.

The increased traffic on the US-Japan-New Zealand route is bringing welcome business to Auckland's TranzPacific Container Services, which offers an express container service to the Far East on Gearbulk ships.

TranzPacific is a non-conference carrier. Its rates for cargo are 30 per cent below those charged by the shipping cartel serving the New Zealand-Japan trade. TranzPacific's rates undercut cartel rates by 15 to 40 per cent.

Cartel members are fighting back by sending out invoices with a 15 per cent "fighting discount".

Thus the presence of a non-conference carrier in the trade has cut freight rates by 15 per cent even for those who don't use non-conference ships.

TranzPacific's joint managing-director David Batchelor said the big Japanese trading houses which fought against the service in its early days were now supporting it with their cargo.

Legal threat to Casper import document scheme lifted

by Allan Parker

THREATENED legal action clouding the Customs Department's new computerised import documentation system, Casper, has dissipated.

The Chambers of Commerce, worried about the lack of confidentiality over import transactions, tried to mobilise support for an injunction to stop the new system.

But the hoped-for support — aimed at proving damage to business by disclosing commercial pricing arrangements — failed to materialise.

So Casper is proceeding towards a planned July 1 target for full implementation.

The controversy arose because the new system disposed of the previous system that processed import transactions by an import agent on behalf of another company by hand within the department.

The system allowed the department to cut out details of the middle man's source of supply and price, so the end customer or user did not know details of the agent's business.

But the new computer cannot remove this information from the information it records: Hence The Chambers of Commerce reacted against it.

In an effort to prevent the system coming into operation, the chambers rallied support from import agents, who in turn tried to rally support for a High Court action by seeking corroborating evidence from their customers.

But the end-users would not come to the legal party and the proposed action evaporated, leaving the Customs Department free to proceed with the introduction of Casper.

A large proportion of the end-users are among New Zealand's largest companies who have both the supply-source information anyway and are reluctant to do battle publicly with a powerful Government department in a public court-room.

Ironically, the new system will only last until July 1 next year, when a GATT valuation code based on final price to end-users comes into operation among the major trading nations, including New Zealand.

The new system next year will reduce the need for importing agents to detail their sources of supply and pricing.

But until then, most importing agents will be using public customs agents as another step in the distribution chain.

Once Casper has processed the import documents, the importer can channel his documentation through another party to preserve his commercial confidentiality.

Drawn to the top

NBR cartoonist Bob Brockie has been named best cartoonist of the year in the Qantas Press Awards.

Brockie's portfolio was judged best of the 12 entered, with *Listener* writer-cartoonist Tom Scott runner-up.

The award, judged by *Melbourne Sun* cartoonist Jeff Hook, carries a trip to Singapore as first prize.

Bright lights lure NZ lawyers across Tasman

by Rae Mazengarb

TOP lawyers are being lured across the Tasman by higher salaries, lower taxes and better prospects in some specialised fields of legal work.

Although only a few have taken the plunge, *NBR* understands some legal firms — particularly in New South Wales — have been flooded with inquiries from New Zealand lawyers interested in practising there.

But district law societies here are not concerned about what some lawyers have called a "significant" movement of senior practitioners to Australia.

Auckland District Law Society secretary Graham Wear said that few were going permanently.

Christchurch society president, Peter Hill said he could think of only one senior lawyer who had left Christchurch for Australia recently.

But a Wellington lawyer said that, in terms of expertise, the country had recently lost at least half a dozen practitioners "of substantial seniority".

From the Auckland district alone, lawyers making the move include Bob Adams Smith QC, Michael Williams, Jim Farmer and his lawyer wife Sonia.

Statistical information on the extent of the drift is difficult to obtain. The Australian Law Society says it can monitor the number of applications for positions from New Zealanders, but not all those who apply actually take up those positions.

But it says that in New South Wales — where there is a strict division between the ranks of barristers and solicitors — last year 12 New Zealanders applied to be allowed to practise as solicitors.

The New Zealand Law Society similarly says it is difficult to gauge how many lawyers leave permanently for Australia. Not all lawyers decide to practise law across the Tasman. And, some of those who do also keep a practising certificate allowing them to work here from time to time.

From his Sydney practice, Farmer told *NBR*, last week that he was among the few barristers he knew who had moved to New South Wales who still split their operations approximately 50-50 between the two countries.

Farmer said that while only a few senior barristers had left New Zealand for Australia, "lots of junior solicitors" — those of 10 years of experience or less — were practising in New South Wales.

He agreed with suggestions that some firms were receiving up to 30 inquiries every year.

For those wishing to practise as solicitors, the attractions are lower taxes and higher salaries.

Farmer is among those lawyers attracted by the amount of company and commercial work.

Lawyers such as Williams and Adams Smith, whose area of expertise is personal injuries work, have been attracted to Australia since the Accident Compensation Commission eliminated that line of work.

New Zealand Law Society assistant secretary Tim Broad said the society had reciprocal arrangements with Queensland, New South Wales and Victoria.

In those states a lawyer can apply to practise after residing three months in the particular area, provided that he or she has evidence of being admitted here; practised here for five years; not been subject to disciplinary proceedings.

Comment

Editorial

OFFICIALS from both sides of the Tasman have been meeting regularly since a leadership "summit" earlier this year and have agreed in principle on a package to give effect to a closer economic relationship (CER) between New Zealand and Australia.

Significant progress has been made in preparing the agreement, under which tariffs applying to trans-Tasman trade would be gradually phased out from mid-1992 and import licences and quotas would be liberalised. Both sides apparently want CER; now it is time to grapple with the political realities.

Australian Deputy Prime Minister Doug Anthony will lead an Australian team of negotiators for talks in Wellington this week. The New Zealand team — which will include Deputy Prime Minister Duncan MacIntyre, Overseas Trade Minister Brian Talboys, and Trade and Industry Minister Lance Adams-Schneider — will be led by Prime Minister Rob Muldoon.

The discussions will range over some rocky ground. Australia wants New Zealand to give firm dates for phasing out import licensing and export incentives. Problems have been raised, too, by the recent Government decision on wine imports, which will keep out cheap foreign wine including Australia's. Other problem areas include dairying, horticulture, and timing: the Australians want a compatible system by 1995; New Zealand would prefer change to be gradual, with no fixed time framework.

Talboys has boldly acknowledged that New Zealand has a conscious choice to make: "we can put our economic relationship on a footing that is consistent with Australia's future or, gazing backwards, we can pin our hopes on the maintenance of the past. This is what lies behind that obscure-sounding exercise, the search for 'closer relations' with our neighbours. We are trying to establish the framework whereby Australians and New Zealanders can work together to exploit the opportunities within each other's market and beyond in the Asian-Pacific region." Talboys argues that "our future and Australia's future are indivisible", and he has underlined the importance of economic relations with Australia while emphasising the need for New Zealand to "come to terms with reality" in dealing with the world. "We must consciously, but not self-consciously, accentuate the positive in our relationship with Australia," he insists.

In an election year, however, Muldoon is bound to be more sensitive to overt problems — those on which his Government is being lobbied by self-interested business groups with specific apprehensions about the consequences of CER — rather than the less readily perceived collective good that will flow from economic union. We are likely, therefore, to hear that the gap between the two countries has been further narrowed by this week's talks, but significant decisions will be deferred.

The political nettles that may discourage any immediate mutual agreement for the collective good which is the higher purpose of the negotiations are not merely of the trading variety. On this side of the Tasman, there is perhaps some feeling that the Australians are trying to lean on us on the Springbok tour issue (although opposition to the tour here suggests there would be significant support for the Fraser Government's attitude). There will be many, too, who feel that the Australians have put the boot into us on the passport question. Thus it cannot be discounted that the extent to which Muldoon has been personally irked by the Springbok and passport controversies — and perceives popular support for his position — will influence this week's discussions.

Certainly, he expressed anger at Australia's passport decision; it was not handled in "the manner that we normally do things between the Australian and New Zealand governments". He described the passports requirement as excessive, unnecessary and undesirable, and declared that it was "not going to be well received in terms of Australia-New Zealand relations". It showed "a certain insensitivity which disturbs us a little".

But there is reason for the Australians to question Muldoon's sensitivity and the manner in which he handles some issues. Last week, he fired a broadside at Fraser's press secretary, accusing him of promoting division between the two leaders which did not exist. Such criticism of Fraser's staff was scarcely calculated to promote good relations. Indeed, it was pointed out to Muldoon — according to the Melbourne *Age* account — that his remarks could create a stir in Canberra. Muldoon's reported reply: "I don't personally care whether you use this or not."

Muldoon's inclination to shoot verbally from the hip might have some popular appeal. But its purpose, if CER is the overall objective, is obscure; lamentably, it diverts attention from the real issues and hampers rational discussion.

Muldoon reportedly has made it clear privately that he believes there is no reason why the CER talks should not be successfully concluded in time for implementation of the new trans-Tasman arrangement on the target date of July 1 next year. Publicly, he is constant only in his ambivalence. In March, for example, he gave the chances of success of the negotiations at less than 50-50. Thus the Australians don't know where they stand with him, and — when he apparently gratuitously criticises Fraser's staff — those concerned to promote closer Australian-New Zealand relations, find it difficult to interpret his signals.

The negotiators are down to the tough issues, those demanding political answers. These issues need handling separately and objectively, and there is a great deal of scope for Fraser and Muldoon to real substantive agreement — if they want it. The officials have worked out the mechanisms which can be used to tackle the outstanding issues, and provided the politicians with a choice of techniques for dealing with political snags. Their work will be wasted if Muldoon and Fraser retreat to their respective ends of the duelling field to take further pot shots at each other.

— Bob Edlin

Without word of a lie

Off the record

WILSON and Horton, never known to be flocking to join the ranks of the big spenders except, perhaps, when it comes to television projects, splurged some $600 to $800 on self-switching recording gear for taping radio news, the idea being that news could be recorded at weekends without having to pay someone to be there to press buttons manually.

According to cynical staffers, the move was made only to record evidence to demonstrate to the Broadcasting Tribunal that Radio Hauraki and Radio i were "lifting" *Herald* copy instead of ferreting out the stories for themselves.

Wilson and Horton made its point. Since then, we're told, the expensive recorder is gathering dust — and it doesn't work too well, anyhow.

Just dreaming

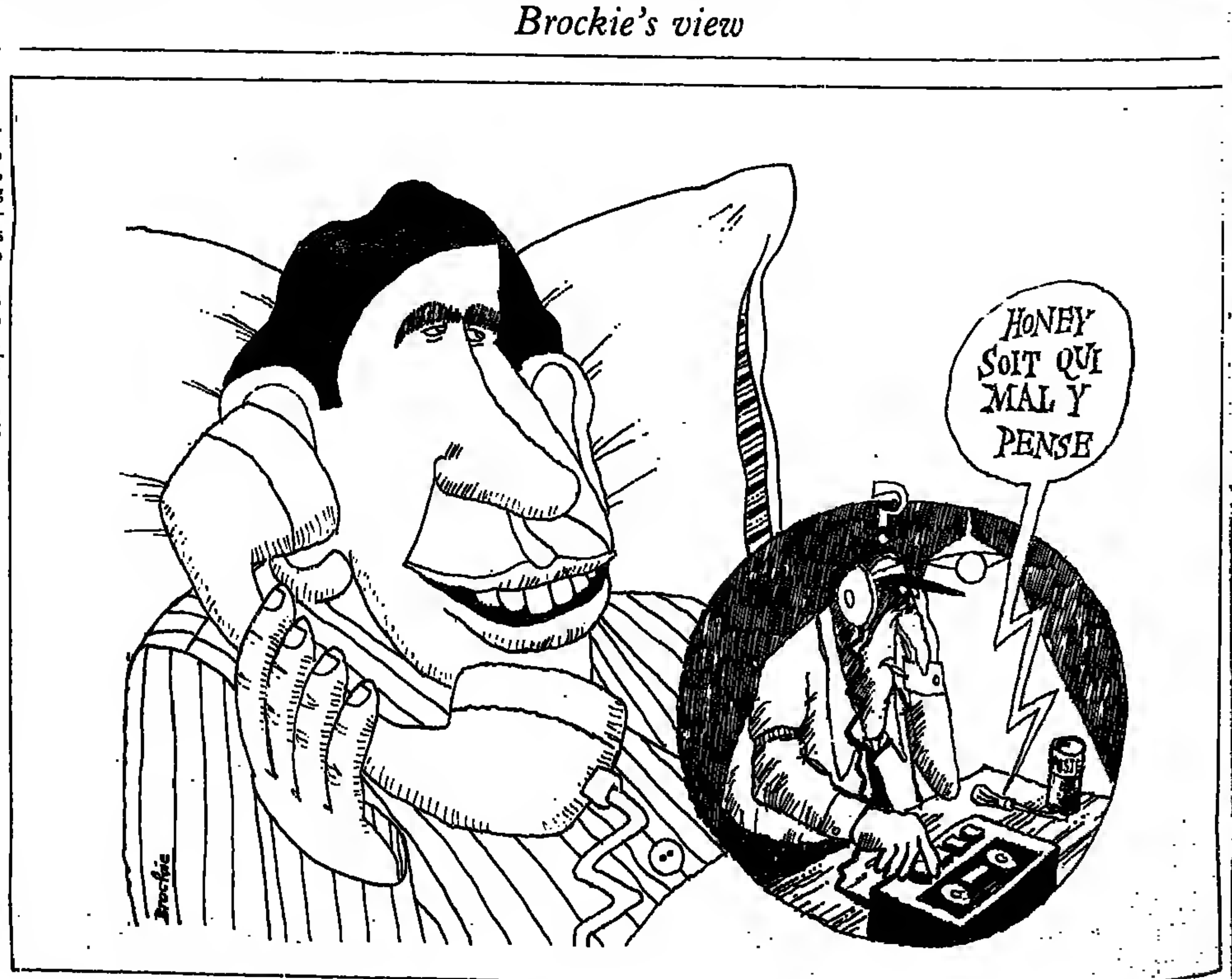
LAST week's *Close-up* programme on the public servants' strike in Western Samoa gave the lie to the idea the boob tube will rot the mind. It prompted one viewer to formulate a new economic regime for New Zealand.

Samoa's bureaucrats stopped tabulating, thwarting, regulating, and returned to the plantations to start producing.

There is now more produce in the markets and prices go down, slowing the rate of inflation (70 per cent over the last two years), according to *Close-Up*.

Micro to macro, what would happen if this country's civil servants followed the Samoan example? For a start, one-third of the workforce might start filling in their idle hours making or growing something. And on the supply side, that half of the GNP now spent by Government might go into productive enterprise.

Brockie's view



Only talk

WHEN Gordon Dryden took up the issue of sado-masochistic sex parlours on Radio Pacific last week, he was careful to assure listeners that he wasn't trying to push the idea, but was merely interested in hearing people's views on an article in *Time* magazine about such pain-palaces in the United States.

"I'm not just trying to whip up sex and sadism as an issue," he said earnestly, no doubt aware that the group of Aucklanders which has been running a campaign against the station in recent months would be only too happy to add SM to their list of titillating topics which Pacific is unduly airing, they allege, to destroy the city's moral fibre.

While the listeners did not exactly flock to their phones to tell all about their response to whips and leather, one psychosexual counsellor did ring to say that she counselled many Auckland top executives who needed such extracurricular games to counter stress at work.

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Comment

FM: hearing believing?

by Warren Mayne

FM RADIO, complete with stereo sound — here we come. Everyone who's everyone with a concern (and a vested interest) to have frequency modulation radio introduced in this country has a chance to parade before the Broadcasting Tribunal in Auckland and spell it all out.

The preliminaries are over. The tribunal, charged with providing a full report to Minister Warren Cooper by September, heard the engineering evidence a week ago. The tribunal has heard the various boffins' views on *how much* FM radio will be available and it is now time to find out *what* could be provided, in terms of programming options.

But thanks to the electronics jargon of the experts delivered at the Wellington engineering hearings, the public probably believes that the broadcasting powers-that-be and forever-want-to-be have already prescribed the limits. The big two — the Broadcasting Corporation and the Independent Broadcasters Association — who already rule the AM airwaves, seem strangely agreed on a "think-big" policy that effectively could mean think small.

The section of the VHF band set aside for FM stations will be freed from other uses in two stages — one half now, the remainder after January 1983. Thus the vested interests have the ideal argument to support their getting in first, perhaps leaving some crumbs for when more frequencies are available.

Nice and pat, the BCNZ on behalf of Radio New Zealand spells out an overall allocation of FM goodies for the whole country. Nice and pat for state broadcasting, that is.

It all goes back to the plan submitted to the FM planning committee's report, produced to Government in 1978 and kept secret for two years.

On this scenario, the country would get two wide-area FM radio networks, with extra two or three alternative programmes in the main centres and a varying number of programme choices for a varying number of provincial centres.

High-powered network and wide-coverage regional stations, alas, reduce the number of small, low-powered localised stations that can be fitted into the spectrum.

But FM's potential is to enable stereo broadcasting and to ease congestion on the AM-FM band, enabling the spread of existing main-centre services to the rural areas. And what are the programming experts proposing?

Two nationwide networks have been mooted. One is easy — to allocate the present YC concert programme. It is wanted by two-thirds of the individuals who put in submissions to the tribunal, most of them living in provincial and rural areas beyond the range of the main-centre YCs.

Full national coverage, in the stereophonic sound that the concert programme is ideally suited for, is an obvious argument for moving the YCs to FM.

But what goes on the second network — and who runs it? There is little point in putting the speech-oriented, all-purpose YA national programme on to FM. Full national coverage for the YAs is within reach on AM, particularly if present wide-coverage YC frequencies on the AM-FM band are eventually converted for YA use in difficult reception areas.

The ZB diet of top 40 hits, race results, and inane patter, liberally peppered with commercials? No point at all, because 45rpm pop records are mainly suited for monaural radio playing and the ZB stations are all locally based. The same goes for the ZMs — and for that matter virtually all private stations.

So what can either RNZ or the IBA members offer for a second network? Plainly, either public or private interests would have to come up with a completely new format, based on album tracks.

For a nationwide middlebrow network aimed at a mass audience to balance the YC-FM elite channel, that means a little bit of everything from "beautiful music" (son of Mantovani) through country and western to heavy rock. In short, a little bit of everything probably at a convenient time for nobody.

And those extra channels in the main and major provincial centres — well, they seem to be earmarked for the private lobby, which no doubt is thinking American — automated, round-the-clock jukeboxes. If listening to stereo records without having to buy the LPs is what we want for FM, we might as well have a system comparable to Air Air Zealand's inflight music — five or six stations each churning out a solid diet of a single specialty,

But where has genuine "think-small" gone, aside from a few grudging suggestions that present part-time radio stations operating on short-term warrants (such as the university student stations) should be given the same again, but no more, on FM instead of AM?

What has happened to all the enthusiasm for the idea of hosts of tiny shoestring, low-powered stations serving areas a couple of miles in radius?

Somehow, this philosophy of "people's broadcasting", with adequate provision for ethnic minorities, specialist interests, such as religious and educational groups, local community groups and all the other "access" hopefuls, hasn't surfaced.

The YAs and YCs, and perhaps Radio Pacific aside, the BCNZ and IBA haven't done much for the communities they profess to serve. Ratings wars, fought with bigger and better giveaway contests but with the same top 40 playlists, have been the stuff of ZB-ZM-private radio's contribution to mass-audience listening over the past five years.

And in a new medium with so much potential for small-audience specialist broadcasting, more of the sameness isn't good enough, regardless how neatly it falls in with the engineer's blueprints.

Warren Mayne is an *NBR* journalist who has specialised in covering TV and radio.

Wine merchants left with aftertaste

by Frank Thorpy

THE effects of the Government measures which Trade and Industry Minister Lance Adams-Schneider announced for the protection of the wine industry are disquieting liquor merchants who do their homework.

Adams-Schneider said the measures were justified by "import substitution" and "increased exports".

The worst affected imports are wines under $2 a litre FOB which attract a penal impost of $4.50 a litre duty. What the Minister calls "cheap imports" are among the fastest-selling and most popular imported wines.

The quality of the wines detailed below would match the quality of all local wines except, perhaps, a few premium wines, and in some cases would surpass them.

All these wines are made from classical vitis vinifera grapes, which is more than can be said for some local wines.

Adams-Schneider equates low price with low quality and certain wine writers say the new regime will protect the New Zealand public from poor quality wines.

But the following list of New Zealand favourites — all of them below the $2 threshold price and attracting a $4.50 penalty — will probably be excluded from the marketplace.

In this table the first column gives the present wholesale price a bottle; the second the price after July 1:

Sangre De Toro (Spain)	$4.31	$ 9.01
Vina Sol White (Spain)	$4.10	$ 9.08
Paul Masson Burgundy (US)	$9.19	$10.82
McWilliams Claret (Australia)	$5.38	$ 8.88
Oakwood Claret (Australia)	$4.41	$ 9.25
Parelada Sparkling (Spain)	$4.83	$ 8.89
Soaca White (Italy)	$5.01	$ 9.80
Achaia Clauss (Greece)	$4.11	$ 9.09
Riscoll Soave (Italy)	$5.05	$ 9.40
Mateus Rose (Portugal)	$4.74	$11.22
Isabel Rose (Portugal)	$8.05	$ 8.40

Some imported wines over $2 FOB attract .85 cents a litre duty if bought within the quota — that is same quantity as under present import licensing — or $2.85 duty if imported outside the quota.

Examples:

Moselle (Germany), present price $6.23, quota July 1 $6.81, non-quota July 1 $9.14; Asti Spumante (Italy), $7.92, $7.94, $11.73; McWilliam Cabernet Sauvignon (Australia), $5.96, $6.59, $9.90; Cordonui Sparkling (Spain), $5.26, $5.60, $8.00; Black Tower Liebfraumilch (Germany), $6.90, $7.20, $9.60; Seppelts Chalambar (Australia), $5.26, $5.60, $9.00; Seppelts Moyston (Australia), $5.26, $5.60, $8.00. (Prices quoted have been obtained from liquor industry sources).

The Minister will probably succeed in his first objective — import substitution — because such savage imposts will drive some wines off the market.

But how does he expect "increased wine exports" when the winemaker needs such protection on his home ground? No doubt export incentives will provide the answer.

Frank Thorpy is *NBR's* wine writer and a noted author and connoisseur.

Letters

Medium-term forecasts

YOUR economics writer (*NBR*, March 16) provides unconvincing evidence of disagreement over New Zealand's medium-term economic prospects but, more importantly, obscures the richness of current debate on the topic:

(i) The final sentence of my study reads "It cannot be overstressed that predicted trend growth rates are meaningless unless they are related to cyclical movements of the variable concerned". Given that Birch and Haywood are in rough accord on the 1980-1990 outlook, that the projection period used by the Bank of New South Wales is not provided and that my study's forecast horizon is 1978-1983, we could all, in fact, be in full agreement. The apparent disagreement may be explained by the differing periods chosen for analysis.

(ii) The implications of GDP growth for employment and the balance of payments depend (as they always do) on *sectoral* contributions to growth. Therefore, "restructuring" refers to all sectors and not solely to sub-sectors of manufacturing. Hence serious debate on restructuring the manufacturing sector has in the past been torpedoed continually through later growth in export receipts — a function of export prices and primary produce export volume growth.

(iii) Forecasting medium-term prospects therefore forces one to consider methodically the implications for *each* sector of major areas of change such as domestic economic policy, international economic developments, population growth and technological change. For example, if it was considered likely that the country was going to "farm its way" out of its current difficulties then one would need to assume, from past experience, that the political will to restructure manufacturing would disappear. Hence the potential of say, 5 per cent per annum economic growth, would be cut back to a realised growth of 2 to 3 per cent.

(iv) In this sense the recent economic history of New Zealand is one of lost opportunities which are closely related to the socio-political climate. The latter has been read by our political leaders as circumscribing the possibility of lowering the inflation rate to a level which would stimulate small scale investment. The combination of "think big" and agricultural revival may then be interpreted as the only politically feasible option. If the price to be paid for political survival is 3 per cent growth instead of 5 per cent and slight unemployment, who cares? Substantive debate on "politically constrained" economic policy options can hardly be described as widespread — a fact which Mr Muldoon has not failed to take advantage of in dismissing "ivory tower" notions in the media.

John Gallacher
Karori

Haywood's paper looks at four different possible projections, three of which differ greatly from Energy Minister Bill Birch's pronouncements about national development. Gallacher and Haywood look at different time periods, but nevertheless are not in full agreement. Our article aimed not to emphasise their differences, but to contrast the analytical work done by economists with the politically motivated statements of Birch and the work of the Bank of New South Wales.

— Editor

Resolving the paradox

JOHN Perkins writes in his letter (*NBR*, April 13): "High interest rates are inflationary, not deflationary as the orthodox claim." I would go further and say that high interest rates are both inflationary and deflationary at the same time.

How do I resolve this paradox? Simply by realising that inflation is a rise in nominal wealth, but that deflation is a fall in real wealth.

Mrs Thatcher has proved that you can have inflation and deflation at the same time. Her high-interest rate policies could have had no other effect.

Keith Rankin
Wellington

Graceful retreat

WE note in your April 27 issue "Sharemarket" article by Klaus Sorensen that reference is made to Ceramco *ignominiously* withdrawing its bid in the offer to MSI shareholders at the end of 1978; this was not the case.

The directors had carefully pitched the offer in the best interests of both Ceramco and MSI shareholders. MSI reacted vigorously with, in our opinion, ill-advised moves; this has been subsequently borne out by events and is in fact commented on by Mr Sorensen when he states that "with the benefit of hindsight it could be said the MSI shareholders should have accepted the Ceramco bid"; in the event they chose to support their board's moves.

Far from ignominiously withdrawing the bid, Ceramco directors acted in a sensible and prudent manner in that having made a fair and reasonably priced bid they did not enter into a Dutch auction following "the sudden generosity" tactics of MSI's board, also referred to in the article.

We consider that the article does not put the withdrawal of the Ceramco bid in the right perspective.

K M P Smith
Executive Director —
Finance and Legal
Ceramco Limited

Getting things straight

I WELCOME the comments by J V White (*NBR*, April 27) on my recent letter (*NBR*, April 13) regarding his letter (*NBR*, April 6) about an article by your economics writer (*NBR*, March 23). Let me assure Mr White that I remain in Alexandra despite my typographical transfer to Wellington.

After several minutes searching through my higgledy-piggledy pile of old newspapers, I found the bits relevant to our wee intercourse. After perusing the original article, I must admit that the choice of years indeed was not Mr White's. In this respect Mr White is right: I was wrong. I withdraw on of the "tuts".

In closing, let me say that Mr White flatters me by saying I write frequently in the daily press. I am but an egg.

Steven C Darnold
Alexandra

Air NZ and its friends

THERE are probably two primary views of Air New Zealand's international services. The airline is in an intensively competitive international airline situation and, *ipso facto*, it is highly competitive (Air New Zealand's view of itself).

The alternative view is that, as a regional carrier fares and conditions primarily set in New Zealand and protected by the bureaucracy means Air New Zealand is little more than an arm of government.

Your article, "US airlines stalled" (*NBR*, April 20) proves as conclusively as is likely to be possible that Air New Zealand as part of the bureaucracy is the more correct assessment of its operations.

Air New Zealand in collusion with the Ministry of Transport staff and, presumably, with the Minister's approval, set international fares and conditions independently of their competitors.

The MOT then sets itself as a protective barrier "for weeks" between Air New Zealand and the harsh winds of competition provided by its competitors to the special marketing advantage of our national carrier.

The MOT protects Air New Zealand: the competing airlines eventually protect themselves. Who protects the travelling public? It is quite obvious that the MOT is far more concerned at protecting its Air New Zealand managerial friends than the taxpayer who pays their salaries.

Even with this advantage of full government collusion and protection, Air New Zealand is losing about $1 million every week.

The taxpayer paying the losses and, more specifically, the travelling public paying higher fares, may well ask — is it really worth it and will we ever get a fair deal?

Roy Ormsby
Auckland

Conference organiser

IN YOUR article about the annual Market Research Society Conference to be held later this month, it was implied that I was the conference organiser.

Fortunately for my peace of mind and domestic tranquility, that task lies with Mr Richard Brookes, senior lecturer in marketing at Victoria University.

K Fink-Jensen
Managing Director
Heylen Research Centre
Wellington

Politics

An affirmation is an affirmation, for all that

by Colin James

"AFFIRMATION," said the Federation of Labour delegate. "That's what this conference is about."

"Affirmation of what?"

"Affirmation of the leadership."

There are, of course, degrees of affirmation.

There is triumphant affirmation. Our Prime Minister had one of those in 1975 on his way to plenipotentiary power.

There is "right-on" affirmation. FOL president Jim Knox had one of those last year after the workers won at Kinleith.

But any affirmation is better than no affirmation.

When the road is rocky or the ice is slippery, a leader will settle thankfully for a "best-we've-got", or a "tut-tut-but", or even a silent affirmation.

Since the heady days of 1975, the Prime Minister has been getting used to these lower-grade affirmations.

In 1979, a turbulent undertow of suspicion and mistrust sapped the party's eagerness for affirmation.

By last year's annual conference he had clawed his way back to a "let's get on with it" affirmation of sorts.

Then came East Coast Bays, the colonels and a steep slide, followed by the pickets dispute, Tania Harris, Fred Dobbs, restraint and reason for a fair measure of rehabilitation.

Then came Air New Zealand. While the party watched aghast from the observation lounge he insisted on standing in the slipstream.

Even some of the Rob-right-or-wrong people, so I am told, found this a bit puzzling. Others less dazzled by his perpetual brilliance gave their MPs earfuls.

There is now a route for communicating such once-incommunicable criticism to the leader. That route is deputy Prime Minister Duncan MacIntyre, old mate from the early 1960s, to whom the Prime Minister is said to listen with trust.

Whether MacIntyre put a restraining hand on the Prime Minister's sleeve this time, as he has apparently done on other recent occasions, I don't know.

But there was a remarkable turnround. On Thursday, April 30, he was telling "vultures" that Air New Zealand was not dead.

When he starts throwing stones at "vultures", you know the going has got rough up there on the ninth floor of the Beehive.

(Perhaps a trend is emerging. In his latter days, Norman Kirk, another man who formed strong personal attachments, took potshots at pigeons.)

By the next Monday the vultures had vanished. Restraint and reason returned. Even the airline board could not indefinitely ignore public sentiment.

The backoff probably forestalled some pointed back-turning at the National Party's Wellington division conference held over last weekend.

But it came too late for the Heylen Poll that was taken on May 2.

It will be surprising if the Air New Zealand business has not taken some of the buoyancy out of the National balloon.

The Labour Party, for once, sensed a winning issue and got in on it fast and hard.

Social Credit went as usual down the middle which, for once, was probably inappropriate.

All in all, the affair was a badly needed boost for Bill Rowling facing his annual conference in search of affirmation.

He will get it, most likely. This is election year and "flying is the best way to fly" — that is, Bill Rowling is the best Bill Rowling they have got.

Certainly, there is no great groundswell for his deputy. Splittism is no longer in fashion in the labour movement.

It was a distaste for splittists that packed the bomb the Federation of Labour put under the Labour Party last week.

Knox was speaking for many in the union movement when he said in his presidential address that "we are the people in the trade union movement who are the strongest opposition to the Government. There is no doubt about it".

At one level the FOL has already begun moving, with a draft "alternative economic strategy" put before the conference heavily emphasising the need for development to be geared to jobs.

At another was Knox's comment to the effect that the trade union movement must go into political education of the masses.

"Our challenge is to build up a level of political awareness and understanding of the issues so that it (a repressive and dictatorial regime) cannot happen here because it will be confronted by a fully aware and alerted trade union movement."

This is a long way from the "economism" — narrow concern with the worker's wage packet — that prompted then plain Tom Skinner before the 1969 election to tell the Labour Party to go its way and leave the Federation of Labour to go its way, each in their respective spheres.

And why the extra step? "At this stage," said Knox, "it looks as if National could get itself re-elected, largely due to the confusion created by the rise in Social Credit, but also due to the lack of any coherent policy being put forward by the opposition."

And why this lack of coherence? Leadership struggles, basically.

"The Labour Party is . . . divided between people who want to see the party having some general philosophy and principles . . . and those who are more interested in preserving their own political privileges through being able to sit in Parliament on the basis of very limited programmes."

Up jumped pained Labour Party activists to complain. Back came Knox with an assurance that he now thought Labour was coming out with real gut-issue policies and he was prepared to go out and speak on its behalf in the coming election.

He ought to. It is no more than official FOL policy. A draft policy document, drawn from past conference resolutions, put out to last week's delegates, said: "The FOL supports the return of the New Zealand Labour Party to government in 1981."

This conclusion is reached, however, in a backhanded sort of way. The draft goes on: "The defeat of the Muldoon Government in 1981 is the major task facing the trade union movement" (a sentiment echoed in Knox's address).

"Such defeat will only be brought about if the closest co-operation (around a mutually acceptable programme) is established between the New Zealand Labour Party, the New Zealand trade union movement and other progressive organisations of the people."

Apart from the reference to "other progressive organisations" — read Socialist Unity Party — the Labour Party would say hear-hear to that.

And it has been trying to get more input from unions, with, so one union-linked candidate complained last week, precious little really useful response. (If that complaint is correct, it is not surprising, since the union movement shows little sign yet of really facing up to the tough issues of the 1980s.)

The FOL, for its part, in the executive's annual report, complained that "the stated intention of the Labour Party to work more closely with the federation," which the FOL had welcomed, had "remained merely that" — that is, an intention.

"There has not been any effective liaison established with the Labour Party per the medium of the Joint Council of Labour" — the formal liaison bridge between the two.

There are several points to be drawn from this.

One is that it is symptomatic of the overstretched line between the active Labour Party (with notable exceptions) and the ordinary wage worker.

However sympathetic the largely middle-class party controllers are to wage workers' needs, they simply are not part of their lives, in their pubs and on their jobsites, as are union job delegates.

The second is that the Labour Party talks principally to its own affiliated unions, which make up only about 15 per cent of FOL unions — and who tend to be "conciliation" unions more content to rest on their guaranteed membership.

The FOL is now principally in the hands of union leaders who see involving and "educating" their members as more important than simple reliance on the forms of the wage-fixing law.

The third is that the new top brass in the FOL is more hard-nosed and a lot less diplomatic.

Ken Douglas is more to the (political?) point in the executive's report than past secretaries. Knox says things that gentler, more perspicacious or more sensitive souls would slide away from — such as turning the February pickets fiasco back on the failure of the Auckland union leaders to communicate properly with their members.

This quality gets him by so far, with a mixture of genuine liking and tolerance (and, perhaps, confidence he can be nudged in the right direction and appreciation that he is not trying to force potentially divisive issues lying just under the surface of last week's deceptively amicable conference).

Tony Neary's quixotic forays from the right keep alive a vocal opposition, but he does not get the numbers.

Knox got an affirmation last week. It was qualified, but an affirmation is an affirmation, after all. As Bill Rowling will gratefully accept this week.

Economics

Facing reality in the zero-sum society

Economics writer

ONCE it was a rare economist who made the best-seller list. Economists are not known for their ability to write about pleasant events — economics is the dismal science, after all. Nor are there many economists who write in plain English.

But as Western economies have slowed into recession during the 1970s, greater interest has been aroused in the workings of the economy. Everyone is vulnerable to the effects of slow economic growth, rising unemployment and chronic inflation which has plagued most countries.

A number of United States economists have capitalised on this interest, writing books accessible to the non-economist. Some of these have made the best-seller list.

In 1979, William E Simon's, *A Time for Truth*, became a best-seller. Simon was American Secretary of the Treasury in the 1970s and was well-placed to blame the United States poor economic performance on the inefficiency and failures of government while espousing greater individual freedom.

Then came *Free to Choose*, written by University of Chicago economist Milton Friedman and his wife Rose. This book about the need for greater economic freedoms not only made it to the best-seller list, but it topped it.

Friedman and Simon were able to sell their books because they each had a simple message, made logically and passionately. If governments eliminate protection, subsidies and regulations while reducing taxes and government spending, market forces can prevail in a less inflationary environment.

Individual initiative, entrepreneurial spirit and an advancing technology can triumph over whatever temporary ills plague the world's economy.

This message appeals because we all like to think that we can be the masters of economic activity, rather than its victims. But is it really so simple or is it simply the well-written pages which draw us?

More recently, another American economist, Lester Thurow, made the best seller list with his book, *The Zero-Sum Society*. His message is much less palatable than that of the free enterprisers.

To Thurow, the United States economic malaise is deeply rooted in the very nature of American society and cannot be cured without taking steps which may be painful to some.

Energy, inflation, unemployment, environmental decay, ever-spreading waves of regulations, sharp income gaps between minorities and majorities are persistent problems. Because of inability to solve these problems, it is lamented that the ability to get things done has been lost.

While agreeing that the problem is real, Thurow diagnoses it differently. An ability that never existed cannot be lost. What is perceived as a lost ability to solve economic problems is a shift in attention from international cold war problems to domestic problems and an inability to impose the costs of economic losses directly on the losers.

A shift in attention from international problems to domestic problems makes it increasingly difficult to do anything about the economy. International confrontations unify everyone against a common enemy. Domestic problems are much more contentious because within one country there are winners and losers.

When a change takes place, individuals do not sacrifice equally. Some gain. Some lose.

And to Thurow, this is the heart of doing something to improve the economy. The economic problems are solvable and in most cases there are several solutions. But no one wants to volunteer for the role of loser and the political process is incapable of forcing anyone to shoulder this burden.

Everyone wants someone else to suffer the necessary economic losses and as a consequence, none of the possible solutions can be adopted.

In other words, Thurow argues that the American economic and political structure simply is not able to cope with an economy which has a substantial zero-sum element.

A zero-sum game is any game where the losses exactly equal the winnings. All sporting events are zero-sum games. For every winner there is a loser, and winners can only exist if losers exist.

When there are large losses to be allocated, any economic decision has a large zero-sum element. The gains and losses are not allocated to the same individuals or groups.

A policy which, on average, makes the population better off hides a large number of people who are much better off and a large number who are worse off.

And for those who are worse off, the fact that someone else's economic position has risen by more than yours is little comfort. To protect our own interest, we will fight to stop economic change or to prevent the imposition of policies which are against our interests.

The difficulty with zero-sum games is that the essence of loss solving is loss allocation. But the political process is incapable of doing this. When there are economic gains to be allocated, no trouble. But when there are losses, the process is paralysed.

Governments stand in the middle of adversary relationships. Each interest group wants government to use its power to protect its interests and to force others to do what is held to be in the general interest. Energy producers want prices to go up and the real income of energy consumers to go down. Energy consumers want prices to go down and a reduction in the income of producers.

The problem is to establish a modicum of speedy, disinterested decision-making capacity in a political process where everyone has a direct self-interest. Historically, economic growth helped in this process.

With growth, there is more income, jobs and so on for everyone. There is no worry about taking jobs from the elderly to provide them for the young — there are enough jobs for everyone.

Economic growth has been the lubricant that allowed different groups to work together with the minimum of friction.

Thurow identifies the economic problems of the 1980s as energy, growth and inflation. These are interrelated. Without growing energy supplies, economic growth is difficult and rapidly rising energy prices provide a powerful inflationary force. Inflation leads to public policies that produce idle capacity and severely retard economic growth.

He agrees with the free enterprisers that to adjust the changing pattern of energy supply and stimulate growth regulations, protection and subsidies must be removed. But he also thinks these problems demand that the government gets more heavily involved in the economy's major investment decisions.

Energy, growth and anti-inflation problems cannot be bulldozed down people's throats. The losers in this process must be identified and compensated for their economic losses.

Lester Thurow . . . winners and losers.

Thurow argues that support for failing firms should be minimized, as it provides a disincentive for them to restructure. But support for individuals to help them move from sunset to sunrise industries should be generous.

The value judgment is not that the state should provide assistance to needy individuals, but that unless compensation is provided the losers, they will resist change and it will not be possible to adopt policies which benefit the entire population.

Another area of agreement between Thurow and the free-enterprise economists is taxation. He says that one of the basic ingredients of future progress is a tax system that can raise substantial amounts of revenue fairly.

But this need to construct a fair tax system emphasised the requirement that specific decisons about equity (that is, the identification of the winners and losers) be made if the economy is to improve.

In a zero-sum society, if equity decisions go un-made, economic problems will remain unsolved.

Foodtown packs' em in with price-cut ploy

by Lindsey Dawson

THE Foodtown supermarket chain shook up Auckland food retailers last week with a marketing strategy which resulted in packed supermarkets. "The response has been tremendous," said president Doug Ross.

Foodtown reduced 2300 prices in its 18 supermarkets, and published a double-page spread in the local dailies, enumerating all the priced-down products in closely-packed type. Shoppers were challenged to select any 10 consecutive items from the list and compare them with the same products in other supermarkets.

"If you have purchased the 10 items cheaper, Foodtown will pay you 10 times the difference in cash," the group's advertising said.

Ross said Foodtown had cut prices because it felt it was "time for a change".

"We wanted to retain not only our total image, but also a price image. We realised that that could have been eroded if we hadn't made a positive move," he said.

Foodtown's push is seen as a move to counter shoppers' movement to discount stores. While Foodtown offers a wide range and has a quality image, many shoppers have been forsaking the pleasant surroundings for the more spartan facilities at low-overhead chains such as Shoprite, Three Guys and the No Frills Food Barn, where prices are cheaper over a more limited range.

Ross said Foodtown would be cutting its profit margin to offer the new prices, but that increased patronage should more than make up the difference. "We've studied it in depth. We're pretty sure we can predict the results," he said.

Foodtown whetted the public's appetite with a big advertising push. It began with sombre-sounding radio announcements over the weekend advising the public that all Foodtown stores would be closed on Monday and apologising for the inconvenience, but offering no explanation.

On Monday, onlookers were further tantalised by workers papering over the windows of the stores so that no-one could see what was going on.

It was a "watch this space" ploy which worked so well that Foodtown headquarters were besieged with media and public inquiries.

On Tuesday, Foodtown took four pages of the *New Zealand Herald* to announce (through $11,000 worth of ad space) that Foodtown had cut prices on all its grocery lines, except some imported gourmet products, in implementing its "Everyday Low Prices" policy.

"We have no doubt that this will provoke all sorts of counter-claims, gimmicks and temporary price cuts from our competitors. So wherever you shop, it should soon be costing you a little less," Foodtown said in its ads.

Brian Stanton, managing-director of Three Guys supermarkets, said Foodtown was running "an interesting marketing exercise using a computer".

He said Foodtown's challenge to shoppers to select any 10 "consecutive (in sequence)" items in their price list and compare them with the same items in other supermarkets was not really valid — "if you took out the words 'consecutive (in sequence)' they could easily be challenged."

He said Foodtown's new venture illustrated that Auckland had the most competitive grocery scene in the country. "The people who benefit are the consumers."

Three Guys attracted many new customers last week when it offered to double the discounts on coupons from the *Good Times Discount Dictionary*.

In the same week Foodtown was giving an extra five cents on each coupon.

"We believe that at the end of the day we will still be the cheapest in Auckland because we have the lowest overheads," Stanton said.

Air NZ pushes ahead 'marketing' 747s

From Page 1

had not been able to offer the same exclusive environment away from the masses at the back end.

Air New Zealand will place a surcharge on Pacific class, in line with other airlines.

Meanwhile crew training on the 747s is proceeding on schedule. But the airline may have training problems because some of its top check captains have been taken off flying as a result of the Erebus report.

There are rumours among flight crew that the company may have to hire Boeing check captains as a temporary measure until the futures of its own men are settled.

Captains Ian Gemmell and Peter Grundy, now grounded, were to have flown the first 747 out on its delivery flight, along with Captain Les Simpson. Captain Barney Wyott and Simpson are now rostered for the trip, which will carry VIPs and journalists (who the airline hopes will later write nice things about it and New Zealand as a tourist destination).

Pilots are said to be happy with the new aircraft, although some of its features are not as sophisticated as those on the DC10, including — ironically — its navigation system.

The DC10's navigation computer with its three inertial platforms is quickly programmed by the flight crew by inserting company route numbers. The system automatically extracts the necessary information as to waypoints and flies the aircraft — only too accurately in the Erebus case — right on course.

The 747's system, while just as accurate, requires a heavier work-load for pilots who must manually type into the computer every waypoint for each route, checking and double-checking to make sure that all the digits are correct.

A programming error on a foreign 747 several years ago resulted in the aircraft inadvertently flying to Wellington instead of Auckland, an embarrassing slip-up which was little publicised at the time.

Deputy chief executive Jeff Wisdom temporarily took over the top job at Air New Zealand on Thursday, but it was hard to get comment on the company's future because anyone in authority was "in a meeting".

Most staff, however, are echoing Wisdom's early comment that he was confident of future success. "We haven't been knocked off our feet. We're just staggering a little," he said.

Exchange rates

AS at May 7, NZ dollar sells r.

Britain	.41
US	.83
Canada	1.0
Australia	.7
Fiji	.70
Austria	13.
Belgium	32.
China	1.5
Denmark	6.25
France	4.71
Greece	48.
Hong Kong	4.7
India	7.3
Ireland	.54
Italy	990.
Japan	190.
Malaysia	2.05
Netherlands	2.20
New Caledonia and Tahiti	85.5
Norway	4.90
Pakistan	8.70
Portugal	52.6
Singapore	1.861
South Africa	.729
Spain	79.66
Sweden	4.250
Switzerland	1.815
West Germany	1.957
Western Samoa	.855

Buyers looking for a slice (sorry, share) of the action

by Klaus Sorensen

THE sharemarket seems to be going through another one of its fads. Almost like a bored child — looking around for a bit of excitement — the market has begun to cast around for stocks which might provide some action.

But unlike previous fads where either forest companies, exporters, miners, financiers or engineers have been the stocks of the moment, the present market is prepared to consider almost anything — as long as it looks like it might go up.

And in this sort of bull market, that means just about everything.

Since the beginning of this year the NZUC market index has risen by more than 100 points, from 547 in January to 663 by last Wednesday.

And judging by the market's pace so far this month, it has lost none of its steam. In the four trading days to last Wednesday the market clocked up another 15 points.

The start of the March 31 reporting season gave investors that extra little bit of confidence they needed to go on a buying spree.

They were buoyed by a number of extra good results, the Prime Minister's persevering attacks on interest rates, as well as the Primary Producers Co-operative Society's share raid on Canterbury Frozen Meat.

Depending on which version you believe as to how many CFM shares were bought by those opposing the PPCS bid, the share dealing may have injected as much as $6 million cash into the market — and it seems certain that much of that money will be quickly reinvested.

Even without these sorts of bids, this rising market has a strong undercurrent of financial support.

Both institutions and private investors have plenty of money to spend, and they both know 1981 will be a great year for the sharemarket if for no other reason than it is an election year.

Some investors seem to be diving into stocks simply because they are scared of missing out on a boom market.

As a result some shareprice rises have been real eye openers. Six stocks in particular have come in for some heavy attention in recent weeks — Bing Harris, Bridgevale, Computer Consultants Ltd, National Insurance, NZ Motor Bodies and the New Zealand Motor Corporation.

But some of these movements are a little harder to fathom than others.

Take Bridgevale. According to some newspapers the establishment of a new subsidiary in Texas and further oil leases meant, "Oil boom chance for Bridgevale", and "Bridgevale deep into Texas oil boom".

One paper even described Bridgevale as "the Christchurch international energy investor" — not bad for a company which had its humble beginnings at Charming Creek, Westport.

Judging by the 15c leap in the shareprice following the announcement, small investors, and the Christchurch sharebrokers who were invited to the announcement briefing, were impressed.

But in Wellington, at least, there is a fair bit of scepticism about Bridgevale's potential.

The attitude seems to be one of surprise that such a small and recently formed New Zealand company can make it big in Texas — even if its new company, Bridgevale Energy Corporation, does sound rather grand.

But the problem seems to be that most analysts, brokers and large investors don't know what to make of the information Bridgevale has produced.

The small investors don't have any such difficulty — they see the headlines and then fire in a buying order.

NBR asked a number of analysts in both Auckland and Wellington last week what they thought of the Bridgevale announcement.

Most admitted they didn't really know whether 500,000 cubic feet of gas a day was good, bad, or indifferent.

A director of the company was asked in Christchurch to estimate returns if a new well produced at the rate of 500,000 cubic feet a day. He quoted a pre-tax profit of $350,000 after state taxes, royalties and costs.

It might pay for the Bridgevale directors to set out in simple terms just what impact the company's "international energy investments" will have on profits. That way investors would be able to base their decisions on information, rather than hunches.

But hunch investment isn't confined to the mining stocks. New Zealand Motor Bodies has risen from its low of 70c to a dollar in a matter of weeks — apparently on the expectation of a major profit recovery.

But if NZMB recovers its fortunes this year, it won't be the first time. The Palmerston North coachbuilder has had more than its fair share of ups and downs, and its future must still be regarded as less than secure.

In spite of the company's track record, one broker who would happily have described the company as a "dog" a year ago, is now discussing the company in almost reverent terms.

The sale of its Auckland assembly plant, and recent export contracts will undoubtedly help NZMB to produce a much improved result this year, but shareholders would be unwise to expect a sudden dividend deluge.

Another of the six, Bing Harris, is also being sought as a recovery prospect. A little more is known about this company's chances, and the annual report (see review page 19) details Bing Harris' financial restructuring and its promising export prospects.

The shares have risen from a 1981 low of 76c to 97c — helped no doubt by the fact that Brierley Investments has received approval to increase its existing shareholding.

The New Zealand Motor Corporation is another interesting situation. When the company was formed from an amalgamation of the Triumph and British Motor Corporation activities in the early 1970s, massive amounts of shares were issued.

Throughout the past 10 years there have always been more NZMC shares for sale than the brokers have known what to do with.

But the company's success with the Honda marque, and its diversification into television rental has changed the picture. From a low of 160 this year the shares have risen to 195c and by last Wednesday were set to break the $2 mark.

The shares have risen in two leaps. About four weeks ago they could be had for 165c — that was until a few institutions started buying and the price reached 184c.

Last week buying interest increased again, but at the same time the scrip dried up and it was virtually impossible to buy any shares at all — so the price roared ahead.

Computer Consultants Ltd has had a similar experience since listing. To begin with, the shares traded as high as 285c but selling pressure had the shares down to 220 a month or two ago.

At that price the analysts and the market in general seemed content to leave the shares alone on the basis they were an untried proposition.

But a 140 per cent profit increase for the March 31 year and a return of 31 cents per share (61.9 per cent) seemed to dispel most doubts.

The shares recovered to 270 on the announcement of the profit and when the final dividend was declared, in conjunction with details of the cash issue, they went through to 285.

While there are obviously still a few sellers of CCL, they appear to be outweighed by buyers.

Last week a parcel of 105,500 shares were reported sold at 270, and it is understood these shares went to three institutions who each bought parcels of between 30,000 and 40,000 shares.

But it's not just institutional support for CCL which has pushed the price up.

There is a big demand from private clients as well, and *NBR* understands one Auckland broker has orders for CCL stock amounting to nearly 300,000 shares — which he is simply unable to fill.

Of course, the big talk of the week was the PPCS raid on CFM. The less reverent among us derived considerable amusement from the fact that the "new chum" 10,000 member farmer's co-operative (the PPCS was established in 1946) managed to cause such discomfort among the gentlemen-farmers on the board of CFM (est 1882).

It seems the PPCS action has more than a little to do with the rather high-handed attitude of CFM chairman I E O McKellar.

McKellar and his directors were unhappy when Borthwicks sold its 24 per cent stake in the company to the PPCS last year, and he has stoutly resisted the co-operative's approaches to the extent of suggesting CFM may issue more shares to water down the PPCS' interest.

At one stage there was a board position available at the CFM table and when asked why a farmer representative had not been appointed, McKellar said it was because there was nobody of the appropriate calibre available.

Not the sort of thing the crusty South Island farmer likes to hear.

But the same time the remaining CFM shareholders ought to be a little perturbed by the co-operative's attempt to steer the company away from diversification.

The directors' primary responsibility to shareholders is, after all, to seek the highest possible return and not to look after the particular interests of one set of shareholders, or customers.

Finance

Business week

Allied Farmers Co-operative Ltd withdrew its bid for 40 per cent of **R and W Hellaby Ltd** after the examiner of commercial practices declined to sanction the takeover.

Ampol Exploration Ltd: unaudited net profit for the six months ended March 31 was $A6,379,000 (last year $A5,395,000). An interim of 5 cents will be paid on June 9.

ANZ Banking Group Ltd: net profit for the six months ended March 31 was $A88,057,000 (last year $A65,872,000). An interim dividend of 14 cents will be paid on July 1.

The Melbourne-based ANZ begun negotiations for its Sydney rival, the **CBA.**

ANZ Banking Group (NZ) Ltd: unaudited net profit for the six months ended March 31 was $13,021,000 (last year $6,614,000). An interim dividend of 8 cents will be paid on July 1. The results include UDC Group Holdings Ltd, which became a wholly owned subsidiary, previously 64.04 per cent owned, on March 31 1980.

Australian Guarantee Corporation Ltd: net profit for the six months ended March 31 was $31,950,000 (last year $A27,518,000). An interim dividend of 4.375 cents will be paid on June 12.

Stockbroker **Bidwill Wakeman Paine and Co** extended its offer for **Atlas Majestic Industries Ltd** shares by 500,000 to 1.5 million at 45 cents.

BNZ Finance Co Ltd: net profit for the year ended March 31 was $1,633,000 (last year $1,168,000). A final dividend of 12.5 cents will be paid on July 20.

Bridgevale Mining Ltd has incorporated a wholly owned subsidiary in Texas, **Bridgevale Energy Corporation,** to drill for oil and gas in west Texas.

CBA Finance Holdings Ltd: unaudited net profit for the year ended March 31 was $1,401,000 (last year $860,000). An interim dividend of 5.5 cents will be paid on May 18 and directors will report again in three months for a 15-month period to enable the balance date to be changed to June 30.

Dingwell Paulger Ltd directors are recommending a one for five bonus issue.

Europa Oil NZ Ltd: net profit for the year ended December 31 was $6.9 million (last year $5.8 million).

George Court & Sons Ltd: unaudited net profit for the 7½ months ended February 28 was $165,570 (last six months $90,044). An interim dividend of 6 per cent will be paid on May 29. The company is changing its balance date from July 19 to August 31.

Hume Industries (NZ) Ltd has bought a 50 per cent shareholding in **Spiral Welded Pipes Ltd** — which will become a wholly owned subsidiary — previously held by **Steel and Tube Holdings Ltd** through its subsidiary C[illegible] Engineering Ltd.

Pavroc Holdings Ltd's [illegible] director, C L S Paterson, [illegible] the managing director of D[illegible] Lloyd Investments Ltd, K [illegible] Bowell are making a first-come first-served bid for one-third [illegible] the share capital at $2.30 [illegible] share and convertible notes [illegible] $1.53 each in the company. The other four directors [illegible] recommending acceptance [illegible] an offer by Fulton Hogan Holdings Ltd.

Placer Development Ltd: net profit for the quarter ended March 31 was $9,368,000 ([illegible] year $26,470,000).

Radio Avon Ltd: unaudited net profit for the year ended March 31 was $135,500 (last year $159,800). A final dividend of 5 cents will be paid [illegible] June 17.

Sanford Ltd: unaudited [illegible] profit for the six months ended February 28 was $769,221 ([illegible] year $517,501). An interim dividend of 9 cents will be paid on May 29. A centenary distribution of 5 cents [illegible] will be paid on June 30.

Scott Group Ltd has [illegible] over **Spincraft Ltd** with the approval of the examiner of commercial practices. [illegible] issued 500,000 50 cent ordinary shares, debentures [illegible] cash sweetener for the [illegible] houseware and light [illegible] maker.

Swan Brewery Co Ltd: [illegible] profit for the year ended Ma[illegible] 29 was $A14,003,000 (last year $A13,008,000). A final dividend of 7 cents will be paid [illegible] June 16.

UDC Group Holdings Ltd: net profit for the six months ended March 31 [illegible] $2,131,000 (last [illegible] $1,444,000).

Wilson and Horton Ltd: unaudited net profit for [illegible] year ended March 31 [illegible] $4,436,528 (last [illegible] $4,577,783). A final dividend of 13 cents will be paid on [illegible] 15.

The examiner of commercial practices has cleared [illegible] **Breweries Ltd's** management of **Ballins Industries Ltd** [illegible] hotels and taverns.

Economic indicators

HIRE purchases contracts [illegible] 11 per cent in value in the December quarter of 1980, according to the Statistics Department survey, to $[illegible] million. Commercial vehicle advances rose 13.3 per cent, cars and caravans 36.6 per cent, while plant and machinery slumped 37.1 per cent. Hire purchases advances in 1980 totalled $612.9 million, a [illegible] per cent increase over 1979.

FEBRUARY's net population inflow was five times that of February 1980, at 605 [illegible] the April 1980-February 1981 period into a net gain of [illegible]. In the year ended February there was a net loss of 10,7[illegible] less than half the net loss in the year ended February 1980. However, there was still a permanent and long-term loss of 1171, down a third on the same month a year earlier.

Fishing industry

Farmers controlling access to fishing beds

by Ann Taylor

LONG-established landowners on the Wairarapa coast between Castle Point and Ngawi have "blue water" rights which effectively allow them to prohibit access to the coast. And crayfishermen, potting along the well-endowed coast, are defensive of the access arrangements they have with the landowners.

Landing fees of from $20 to $30, 7 per cent on catches, 4 cents on a pound and quid pro quo deals during lambing, docking and other busy periods are among the farmer/fisherman arrangements that accommodate access and effectively prohibit other fishermen and the public getting to the sea.

There are 39 fishing licences on the Wairarapa coast. Fourteen are concentrated at Ngawi and five at Castle Point where there is public access.

But most of the coast is fished by those who have private arrangements with the "blue water" rights holders. Hence access to safer launching and richer cray beds is limited.

There is something blue ribband about the owners of the rights. Settlers who bought land before the 1880 Land Act had titles bounded by the mean high water tide mark – a "blue water" right.

The 1880 Land Act and various legislation since states that, where the Government has re-purchased, the subsequent owner loses a strip, a chain wide, from the mean high water tide mark.

And the Municipal Corporation Act provides that when land is subdivided the owner loses the strip. The blue water right is more commonly called "riparian" but that, strictly, refers to the land reserved around rivers and streams.

As one of the blue ribbanda said, the right is "in fairly select company". The result is that the best fishing in the area is monopolised by a minority.

The best fishing, according to *NBR* sources, is within a 10-mile radius of Honeycomb Rock – right in the middle of the blue bloods.

NBR understands that in one place fishermen are charged for access across less than 100 metres, in another the charge is 20 per cent of the fishermen's gross income, costing the fishermen $30,000.

Access across private property prohibits access in other areas. At Flat Point fishermen pay to cross 800 metres of farm land to the landing point.

There are several places where public land does meet the sea, but some are cliff edges and others unsuitable for landing. Unformed, but mapped, roads provide legal access but arguments have arisen over what is a road and what is private property – paper roads are not easy to distinguish on actual land.

Different arrangements are come to by all fishermen on the coast. Some who have a cost arrangement with the farmers are keen to remain dominant in their small empires. Some very costly agreements exist, whereby access is granted because of a long-standing friendship with the farmer.

Jurie Fisheries used to pay a levy to farmers on a percentage of catch. But the farmers concerned met and decided they were not getting their full levy because some of the catch was being remitted through other outlets and decided to settle individually.

Fishing Industry Board spokesman Nick Jarman says the board is aware of the problem, and, like any controlled fishery, is interested in its economic efficiency while still protecting it. The artificial restraint imposed by access difficulties "is of some concern to us", he said.

Trade sanctions

US economic sanctions and the Kremlin's planners

THE Soviet Union has been able to blunt the worst effects of the United States economic sanctions. But the Kremlin's planners have now had time to work out possible long-term effects – and they are frightening. The whole of the Soviet Union's five-year plan for 1981 through 1985 has been thrown back into the melting pot.

There are increasing signs that the United States action will bite hard into the Soviet economy by denying it the two items it was relying on to make up for its own short-comings: computers, and oil and gas technology.

The Soviet planners are finding it impossible to make any assumptions for the new economic plan. They are not only uncertain whether American technology will be available for Soviet industry and to what degree American allies may participate in the trade boycott; they are also concerned about the fate of SALT II, the defeat of which could lead to an astronomic leap in the Soviet military budget.

The Soviet Union has succeeded in outflanking the United States grain embargo: it looks likely to find all but about four million tons of the embargoed grain. But despite the initial optimistic assessments, the United States ban on high technology will be harder to circumvent and will lead to industrial problems and shortages of spares.

American industrial exports to the Soviet Union totalled $719 million in 1979 – compared with $2900 million for agricultural exports. But their importance is reflected less in their dollar value than in the vital role they played in critical industries.

The two most serious problems facing the Soviet economy during the next decade are manpower shortages, which may lead to a decline in industrial production, and possible energy shortages, rooted in inefficient methods of finding and exploiting oil and gas. The solution to both problems depends heavily on access to United States technology.

Inefficiencies in the centralised Soviet economy have traditionally been compensated for by overmanning, but over the next 10 years the labour force will increase by only 4 per cent; in the Russian Republic and the Baltic states, where Soviet industry is concentrated, it will not increase at all.

Meanwhile, alcoholism and labour delinquency are increasing. Recognising the problem, planners based hopes for higher production on computers, especially in the sprawling manufacturing complexes the Soviets favour for producing high-priority industrial goods.

Yet almost all the advanced computer technology in the world is owned or controlled by the United States.

The embargo covers not only United States computers, but American components, used in just about every Western computer, and the United States-made minicomputers that direct European machine tools.

The same embargo covers spares, including those for the computerised assembly lines at the giant Kama River truck factory.

The Communist newspaper *Pravda* claimed in February 1980 that sanctions would not hurt economic progress because all imports from Western countries amount to only 1.5 per cent of the Soviet Union's national product.

That view has been echoed by some Western business leaders - but it is a specious argument, ignoring the selectivity of Soviet hard currency purchases.

If the United States finally rules that deliveries under signed contracts must stop, the break in trade will jeopardise vehicle production, civil aviation, chemicals, and energy projects, all of which need imported American technology.

Take the chemicals industry, for example. There is a vast backlog of unfinished chemical plants, which were supposed to be the backbone of Soviet fertiliser production.

The computer control systems for these plants have yet to be installed; and if they are blocked by the United States embargo, a multibillion-dollar investment will go into mothballs.

The other main thrust of the sanctions could be equally wounding. Soviet energy demand is increasing, but Soviet oil specialists have admitted — for the first time — that oil production could start to fall in the 1980s because of inefficient exploitation and a failure to find new deposits. Before sanctions, the Soviets carefully but continuously bought United States oil and gas technology. The loss of that facility will hurt.

The United States and Britain between them have the most experience in offshore oil and gas technology, an area that will be the most important energy development project for the Soviet Union through the next decade.

The United States is the most experienced in chemical and carbon dioxide secondary and tertiary recovery methods, technologies that are vital if the Soviet Union wants to resuscitate the older fields in the Volga-Urals region.

These technologies — and others — have been sought either because they fulfil a critical function in a Soviet installation or because they spare the Soviet economy the research and development costs of establishing a new industry.

The Soviet planners at work on the new five-year plan have no confidence that they can replace critical United States technology. If there was a single piece of equipment at stake, it — or a reasonable substitute — might be obtainable, but getting comparable equipment for whole industries is not a practical proposition.

So the planners are pondering whether to eliminate plans for computerisation throughout the economy and whether to reorganise their oil and gas production efforts.

There is reason to believe that the United States sanctions alone will have a domino effect in key areas. The Soviet Union traditionally cuts back on spare parts orders, disliking to tie up valuable hard currency in stockpiling spares.

There have been reports of giant excavators and pipe-handlers standing idle because the embargo has stopped the delivery of spares. In turn, this has slowed the development of resources in Siberia, where the equipment was being used.

It is possible that the Soviet Union will be able to obtain some Western technology from countries other than the United States. But experience suggests that a concerted Western strategic boycott concentrating only on such key areas as telecommunications, chemicals, steel production, and energy would act as the kind of political switch that could turn down the Soviet Union's economy to "simmer" for a long time.

NBR regrets that — because of technical problems beyond our control — the weekly sharetable was not prepared in time for publication this week.

Industrial relations

Knox disputes 'look abroad' economic policies

by Ann Taylor

THE "economic miracle" touted by the Government is a farce; options for the next two decades have been severely limited by mortgaging the country to international financiers. To get that finance, the Government has assured investors that the trade union movement can be controlled.

That is the FOL view of the Government's strategy for solving our economic problems as spelled out by president Jim Knox in his address to last week's conference.

With a "settle down lads, we've got a lot of work to do," Knox opened his comprehensive and coherent address with a few remarks about the Prime Minister's absence: "We haven't got any balloons, rosettes and streamers to make him feel at home."

Acknowledging that political and economic instability could lead to either beneficial or repressive change, Knox criticised the Government's policy responses to the economic crisis. "Thinking big," he said, "is merely a way of avoiding debate on more fundamental issues."

After identifying aspects of the crisis in terms of unemployment, inflation and the balance of payments, Knox tackled the economic issues on four fronts.

The export strategy, he said, had tended to focus on the need to generate overseas funds, while ignoring the more important function of providing a means whereby the domestic market can be expanded and allow employment here to continue.

"It must be part of the Government's export strategy that even our people must be exported so their skills and talents are available to other countries," he said, noting that the unemployed might well number 100,000 if everyone had stayed.

The Government seemed to ignore the need for domestic added value and talks about founding export industries on imported low cost components.

"Such a policy can only reinforce the very structural problem we are facing, which is our dependence upon imported components," he said.

The strong domestic base needed for any export industry, Knox said, was often overlooked. "Government policy over the last five years has tended to destroy that domestic base through forcing down real disposable incomes and thus reducing the viability of potential export industries," he said,

identifying the caravan industry as an example.

"Whole industries such as the construction industry have been allowed virtually to collapse, and what we are promised through some of the industry studies is more of the same old formula."

Knox said it was not enough just to produce for export; particular attention should be paid to developng long-term stable markets for agricultural and forestry exports especially. The hectic planters of pine trees might do well to look to their markets in 40 years.

The second area, the encouragement of private enterprise, being pushed by the "young jerks", was based on the assumption that no buyer or seller could influence prices by their individual trading behaviour, Knox said.

"Is that true of the processing industry in New Zealand? Do Watties not influence prices in that industry? Do the oil giants not affect prices in the oil industry? Does the Bankers Association not influence charges in the banking industry? Does Comalco not influence aluminium prices in New Zealand? Do Forest Products or Tasman not have an effect on prices in the forest industry?" Knox asked, making his point that the "young jerks" would like to mould the economy along academic assumptions of private enterprise.

Tackling the third area — increasing foreign investment — Knox said "we could be another Singapore". He pointed to the experience of El Salvador, South Korea and the North-east of Brazil, where people had suffered the "economic miracle based upon foreign investment".

"It must be remembered," Knox said, "that foreign companies of the size of ITT, Ford, General Motors, Esso and Texaco do not invest in a country for charitable reasons. They invest to get their money back and to get it with a surplus as cheaply as possible, and if we are too silly to take note of what has happened in other countries of the world in which unrestricted foreign investment has been allowed, then we deserve all we get."

Knox said he was not trying to be nationalistic or narrow minded about multinational companies; he paraphrased the old proverb about supping with the devil but taking the precaution of using a long spoon — a proverb which our Government, in its desperate bid to throw away all controls on foreign investment, seems to be ignoring".

Knox acknowledged some truth in the argument that foreign investment brings in foreign capital, allows the introduction of new technology and gives access to international markets. But he cautioned against transfer pricing and the cultural and political impact of multinational corporations. "It is really a question whether we want to exchange our own culture, our own way of doing things for *Charlie's Angels* and Worldcar."

And on thinking big (growth?), Knox said it is more an excuse for not thinking at all; in fact, it is only that — a slogan. It must be borne in mind that the size of an enterprise and the scale of activity is not really relevant to the development process and economic management".

Aviation

Air NZ clinches freight deal to inland US

by Warren Berryman

AIR New Zealand has negotiated an interline freight deal with American Airlines to service American cities beyond its Los Angeles terminus.

The deal, struck on the eve of our kiwifruit export season, gives Air New Zealand access to American internal freight rates competitive with Pan Am and Continental Airlines.

Previously, Pan Am and Continental had an overwhelming advantage shipping to inland points in the United States. They could use their own services, but Air New Zealand had to "interline" with an outsider.

"Sure you can fly at half fare without a coupon, if you only want to go halfway."

American Airlines now will distribute cargo to inland America and feed American cargo to Air New Zealand's Los Angeles terminal in much the same way as Pan Am and Continental are served by their internal operations.

The winners in this deal will be North Island and American traders. South Island traders will remain disadvantaged.

Air New Zealand will carry kiwifruit from Auckland to Los Angeles for $1.05 a kilo. From June 1, the rate for kiwifruit goes down to 56 cents a kilo.

From Los Angeles, American Airlines will carry kiwifruit or other cargo the 3000 miles to New York for only 14 cents a kilo.

But while exporters will send a kilo of kiwifruit half-way round the world to New York for 70 cents, it will cost 60 cents a kilo to get produce from Christchurch to Auckland on Air New Zealand.

The cost of flying cargo to Sydney is 67 cents a kilo.

The 14 cents a kilo for a 5½ hour, 3000-mile flight in the US cannot be matched in this country, where Air New Zealand and New Zealand Railways set the rates.

American Airline's Los Angeles service is a 747 freighter shuttle.

Rates to other American cities do not necessarily compare on a freight-cost-per-kilometre basis. The Los Angeles-Chicago rate is slightly higher than the Los Angeles-New York rate, although the distance is far less.

Pan Am and Continental can be expected to match or undercut any through-freight deal to American cities which Air New Zealand puts up.

Air New Zealand could bargain among competing carriers for the best deal in the US, but Continental and Pan Am are obliged to take what cargo Air New Zealand gives them from points outside Auckland.

Air New Zealand international cargo marketing manager Graham Ward said the 60 cents a kilo Christchurch-Auckland rate was sometimes cut by as much as 75 per cent for big volume shipments. That brings the Auckland-Christchurch rate down to within 1 cent of the Los Angeles-New York rate.

It also gives Air New Zealand an edge in obtaining South Island cargo, because Air New Zealand is unlikely to give a 75 per cent discount to a South Islander wishing to ship out of Auckland on competing Pan Am or Continental.

. . . meanwhile, at Continental

AN airfare war among airlines operating between the United States of America and New Zealand may follow the filing by Continental Airlines of a first-class fare about $1200 cheaper for a round trip than the rate available from other carriers.

The new fare, effective from May 1, is expected to be matched by Pan Am, but Air New Zealand said it had no immediate plans to file.

The prevailing country-of-origin fare agreement means a traveller buying a ticket in the United States can fly first to New Zealand on Continental for $1145; a traveller buying a ticket in New Zealand must pay the Government-approved fare of $1750.

It will now be so much cheaper to buy a first-class ticket at the American rate that travel agents will devise means of circumventing the official New Zealand rate. They will issue tickets as if they were written in the United States and charge US-originating prices.

The most likely method is to put each leg of the round trip journey on separate coupons, and reverse the order within the ticket cover.

Whatever method is used, agents are confident that, as in the past, they will find ways of giving the traveller the lowest rate possible, — despite the fact that selling any ticket within New Zealand below the official rate is illegal.

Continental's new fares bring first-class sleeperette fares down to the level of present business-class fares.

Unions into insurance.

AUSTRALIAN trade unionists have entered the insurance business, with the launching in Sydney of Labour Union Insurances in conjunction with the Sentry Australia Group.

The company will provide policies for unionists.

A spokesman for the major initiator of the venture, the Storeman and Packers Union, said its object was not to offer the cheapest policies available, hedged around with numerous conditions, but to provide policies tailored to the needs of working men and their families.

These will include term life insurance, motor vehicle, disability, and household cover. The board of directors, consisting of representatives from the six unions involved, will help design the company's policies.

The Sentry group, a subsidiary of the United States Sentry Insurance and Mutual Co, has entered into an agreement with the unions in which profits from the company are to be divided on a 50-50 basis. The unions' share of the profits will be ploughed back into the centre to hold down premium rates.

In the event of a disputed claim it will be referred to an appeal board representing both the Sentry group and the unions. If that board fails to settle the matter, it will go to an independent arbitrator whose decision will be binding on Sentry.

The spokesman for Labour Unions Insurances said that negotiations were underway to include other major unions in the joint venture which could well prove the forerunner of the Australian trade union movement owning and operating an insurance company outright.

About eight years ago a similar attempt by the Australian Council of Trade Unions to provide general insurance failed when its commercial partner, General Mutual Insurances, was liquidated. This time, however, the former president of the ACTU, Bob Hawke, said the move was the culmination of two years' preparation, and predicted that it would change the "shape and attitude of the insurance industry" in Australia.

Stunned by judgments

A RECENT High Court decision which effectively introduced high inflation rates into the calculation of accident awards could have grave implications for the general insurance industry in Australia.

Awards made in the past for permanent personal disability were designed to provide a pension for the remainder of the victim's life. But, these awards were then reduced by a percentage factor in recognition of the investment potential of such large sums, the most common discounting factor used being 6 per cent.

The courts now contend that this percentage is no longer justified, because the prudent investment returns available to the injured party now scarcely outstrip inflation, and that a certain percentage of the return must be set aside to allay the effect of inflation on the investment earning principal.

Two recent judgments in New South Wales, and Victoria's first $A1 million damages award, have stunned underwriters with the magnitude of the damages awarded. In all three cases, the judges leant heavily on the Barrell case precedent, and insurers believe that the ultimate effect of this precedent will be a dramatic increase in the dollar value of future awards.

According to the Insurance Council of Australia, some insurance companies may be faced with payments of nearly twice the amount reserved under the system before the Barrell case decision.

The international insurance broker, Reed Stenhouse, adds that unless legislation is passed to determine a reduced discounting percentage of say 3 per cent, then insurers will seek to recover increases in claims costs by charging significantly higher premiums for such classes of business as workers compensation and public liability insurance.

Two critical factors now have to be considered when setting the limits of liability: the current and future rates of inflation, and the delays experienced through litigation in arriving at settlements.

If a company were held liable in court today for an accident which occurred five years ago, which is not uncommon, and an award of $A1 million were made, would the liability cover it had five years ago have been adequate to cover such an award?

It is difficult to forecast the precise impact of the Barrell judgment on increases in the premiums for certain classes of business, but a spokesman for the Insurance Council of Australia said some sources within the insurance industry have indicated that there could be increases of between 35 and 50 per cent in premiums charged for workers compensation and third-party insurance.

To add to the woes of underwriters in Australia, another decision has been handed down by a New South Wales court which is at least as dramatic in its potential to increase the level of workers compensation payments.

For the first time an Australian court has decided to allow financial compensation in recognition of the "lost years" — or the period after the death of a person, during which it would have been reasonable to expect that he would have earned an income to provide for his dependants, had he survived.

Term life competition

THERE is increasing competition within the Australian insurance industry for term life insurance, with the recent entry into the field of a major medical benefits fund.

The Hospitals Contribution Fund of Australia is offering cheap, simple cover which can be paid at branch offices of the group as part of the health insurance premium.

For one dollar a week, HCFA is offering people under 30 term life cover of $A30,000 for males, and $A50,000 for females. After 30 the cover gradually decreases, and there is an age limit for policyholders of 65.

HCFA claims that the cover is approximately half that offered by its closest competitor.

Since advertisements were first placed in the Australian press in early March there have been more than 100,000 proposal forms taken out.

Analysing annual accounts: Bing Harris

by Klaus Sorensen

WELLINGTON clothing group Bing Harris and Co Ltd is in a position where, having hit rock bottom, the only way is up. The directors describe the company's experience as "a painful and costly period of adjustment" in the annual report for the year to December 19, 1980.

As has already been reported, the company racked up losses of $2.9 million from its restructuring programme in the last financial year.

But another cost has been jobs. The Bing Harris Sargood reorganisation resulted in a staff reduction from 345 to 180 last year alone.

The informative annual report (complete with five pages of notes to the accounts) holds out hope for shareholders — and staff.

Chairman Graham Valentine says the changes which have taken place, particularly within the main merchandising subsidiary, Bing Harris Sargood, have reflected changing patterns of consumer spending and the decline in the proportion of the national disposable income available to retail sales.

The company's "ongoing activities" contributed a total profit of $664,000 after a $243,000 tax credit, but the rationalisation losses of $2,958,000 meant a net loss for the year of $2,300,000.

This compared with the 1979 experience of a $612,000 group trading profit, a tax provision of $259,000, extraordinary items (contribution) of $525,000, to give a net available profit of $1,224,000.

But the profit and loss account shows that the company suffered a major fall in operating profit before the extraordinaries — before the slight increase in the net figure from $612,000 to $664,000.

Sales increased from $36.3 million to $37.1 million but the operating profit "from ongoing activities", excluding Bing Harris Sargood Ltd, fell from $830,000 to $391,000.

The notes show that one of the main reasons the operating profit fell was due to a major increase in interest expenses.

The expenses breakdown shows depreciation up from $475,000 to $497,000, interest on debenture borrowings unchanged at $242,000, interest on fixed term mortgages and loans up from $177,000 to $205,000 and "other interest" up from $378,000 to $745,000.

These factors, along with a fall in dividends received from $41,000 to $30,000, meant net income from these ongoing activities, before taxation, was halved from $871,000 to $421,000.

But a reversal in the tax position, from an expense of $259,000 to a $243,000 credit, leaves the relatively unchanged $664,000 operating profit.

However, extraordinary items "including costs losses and provisions arising from activities discontinued or subject to reconstruction", of $2.9 million, left a net loss of $2.3 million.

The good news is that the extraordinary loss of $2.9 million includes a provision of $700,000 for further losses expected in the current year, and after that the directors expect losses will cease.

The balance sheet shows shareholders funds have fallen from $14.2 million to $11.5 million.

Current assets fell from $20 million to $19.2 million, due mainly to falls in inventories of raw materials and work in progress, and finished goods.

Fixed assets were reduced from $7.6 million to $7 million while investments have a relatively unchanged value of $1.1 million.

Total liabilities rose from $27.4 million to $28.7 million due to a combination of increased current liabilities and the $700,000 provision for future losses arising from the reconstruction.

Term liabilities were reduced slightly from $3.4 million to $3 million following the repayment of an offshore loan, but current liabilities increased by just over $1 million to $12.1 million — which would account for the increased interest expense shown in the profit and loss account.

The notes show current liabilities include a jump in the bank overdraft from $3.4 million to $5.1 million, a fall in bills payable from $3.2 million to $2.2 million, accounts payable, deposits and accrued expenses of $2.8 million ($3.2 million) and the current portion of loans and advances of $1.8 million ($138,000).

But if the company's finances have taken a battering in the last financial year, the current year should show a very different picture.

The company's recovery looks set to come mainly from growing exports, although references to property development also imply some earnings promise.

Managing director Chris Harris says in his review that in contrast to recent reports to shareholders where restructuring was the keynote, he is not now able to "sound a more positive note of confidence in the future development of the group.

"In fact we believe we have taken the last major steps in our restructuring programme. . . ."

Chris Harris . . . more confident

The company believes the existing activities — those not subject to the restructuring — will contribute about the same as they did in 1980 but "prospects for the Onehunga mill are excellent and we are expecting a significant increase in export sales and profits".

The Bing Harris Sargood subsidiary is now in a sound trading position, though it will not make a significant contribution to profits.

As well, "the sale of surplus properties, the closure or sale of unprofitable operations and the reduction in stocks and debtors should result in a significant improvement in the funds position in 1981 and a reduction of expensive borrowings by the end of the year."

One side effect of the company's difficulties may also prove helpful — Bing Harris has losses available to be carried forward for tax purposes of $2.7 million.

Changing economics Air NZ's most potent enemy

by Bob Stott

AIR New Zealand — when it has navigated through the flak thrown up by the Mt Erebus report — must face up to a drastic reshaping imposed as much by changing economics as anything else.

A more compact and viable operation, better tailored to the needs of the community, should result. But the reshaping will be a painful process for a company which, until recently, has always been on the up and up.

At the heart of the problem is the fact that the National Airways Corporation was too successful at providing a truly people's airline.

When the corporation was first founded, air transport was provided by cheap, second-hand aircraft using fuel which was slowly becoming cheaper in real terms. Air fares at first were so high as to restrict travel to the few well-off, but as surplus cash was ploughed back into the business, as new and more economical aircraft were bought, and as fuel became even cheaper, air travel became more popular.

NAC never aimed at commercial profitability. By the early 1970s it was making an average surplus of about $1 million a year. Total fixed assets in 1975, for example, were $30.8 million, total revenue was $58.2 million and the profit was $356,099. The previous year, the profit was $2.25 million and in 1973 $1.2 million.

During that time, NAC for the first time carried more passengers than New Zealand Railways' long-distance rail services.

Few countries the size of New Zealand have been able to achieve such market penetration with their airlines. It was achieved here because modern planes using cheap fuel and run very efficiently reduced fares to such a low level that everybody could afford to fly.

But NAC was balanced on a knife-edge; it did not require much of a change to tip it into the red. And regardless of the merger with Air New Zealand, the sudden increase in fuel prices coupled with rising inflation (and devaluations which increased the cost of imported goods) sent domestic air services into a spiral dive from which it will take a good deal of skill to recover.

Setting aside the fact that NAC's enpowering Act more or less required the airline to do as it did, it seems clear now that if it had looked for a commercial rate of return on services, it would never have got into many secondary services and it would never have been so obliging in providing peak-time capacity.

It's all very well to buy an extra aircraft to cope with the high demand for early morning and late evening flights to and from Wellington. Those aircraft have to be kept busy during the day. If the only way that can be done is to fill them with travellers using concession fares, then it is a better proposition to refuse to cater for continuing demands for peak capacity.

In the late 1960s or early 1970s any urban bus operator could have been able to point out to the airline that mechanically catering for increasing peaks is the road to disaster.

But NAC saw it as its legal duty to provide air services to almost everywhere, and to provide the capacity for that horde of morning and evening peak-time travellers on the network.

Officialdom does not quite say so, but the search for a viable third-level air network shows that it is now recognised that the airline has to get out of a number of secondary services, and in effect, reshape to fit the changed circumstances.

Fuel in real terms is not going to be as cheap as it was a few years ago and the New Zealand dollar is hardly likely to strengthen markedly against the United States dollar for aircraft and spares to get cheaper.

And it will take some time before the general public has as much to spend on flying as it did a few years ago.

Almost all Air New Zealand staff have known nothing but boom times. They have seen traffic fall slightly in times of minor recession, but overall, traffic has risen.

Now the airline is facing the problem that bedevilled the railways for so long. NZR men for years have seen branch lines cut, passenger services stopped, stations closed, staff reduced and all the rest of it. This process has done nothing for Railways' image or for NZR's staffs' self respect.

Both airline and railways are having to reshape to fit the new patterns in the 1980s, but for Railways that's good news. Because of the trend in industrial development, and increased fuel prices, Railways is on the upward path.

The same fuel crisis which has crippled the airline has got Railways a new promise of an electric main trunk line. The trends in industrial development mean that a new railway is planned to serve Marsden Point port in Northland and another new line is proposed in connection with the Mission Bush steelworks.

In Poverty Bay some see a new rail line for forestry as at least desirable, and most who are close to forestry development in the Taupo area feel a rail extension to Taupo will get the green light this decade.

The reshaping of the economy is working in favour of Railways, but working against the airline.

After Erebus then, a somewhat punch-drunk Air New Zealand is going to have to face up to a public which apparently feels private enterprise air operators can succeed where the state-owned airline has failed — in the field of providing low-cost regular air travel to and from provincial centres.

Air New Zealand staff are going to have to listen to justifications for this move which are often at best only half-baked but in the longer term they may well have the satisfaction of seeing the third-level operators propped up by the state to keep them going . . . but that's a Pyrrhic victory.

"I couldn't talk her out of her depression sir—but I did persuade her to display one of our latest range."

Winding-up threats over unwanted advt

by Warren Berryman

AN Auckland company has been threatened with winding-up proceedings by a debt-collection agent acting for Tasman Publishing. But it claims it neither ordered nor wanted the advertising which for which it has been billed.

Wales and Company Ltd, a major Australian fishing company with offices in this country, did place an ad in the respected industry publication, *Commercial Fishing*.

Some time later, the same ad appeared in Tasman's publication, *Fishing and Processing*.

When Tasman's bill for $175 came in, Wales and Company advised Tasman it had not ordered the ad. Manager Terry Williams told *NBR* he had not then, even heard of Tasman Publishing or its magazine.

Early last month, Wales and Company received a letter from a debt collector calling itself Credit Collection Co, dunning Wales and Co for the $175.

The letter said: "the above debt has been placed with us for collection.

"Our instructions for recovery of this debt are to pursue the matter to a successful conclusion. Such action will commence with judgement proceedings in the Magistrates Court, and should payment not be forthcoming, will be followed by a Supreme Court petition for company liquidation. Legal proceedings will commence ten days from the above date (4 March 1981)".

The Unsolicited Goods and Services Act makes it an offence to invoice a company for unordered goods, but Wales and Company replied:

"We have always strongly denied (and continue to deny) ever placing an advertisement in this magazine. We will not be paying this account and any attempt to place this company in liquidation will be fought vigorously."

NBR phoned Tasman Publishing's publisher and general manager, Geoff Adams, who told us to tell Wales and Company to forget the debt.

The ads in his fishing magazine, as in his other magazines, were sold over the phone, Adams said. "Stuff sold over the phone is easy to dispute and probably not enforcable in court. I eliminated this type of selling as it was open to abuse by unscrupulous salesmen," he said.

Adams said Tasman had dropped all its past publications and was now concentrating on two "quality publications", *NZ Yachting* and *Consumer's Shopping Guide*. "There is no phone selling. We go direct," he said.

NBR has not seen a copy of *Consumer's Shopping Guide*. But we have seen a copy of *NZ Yachting*. It is a quality production, with attractive layout, good colour reproduction, and editorial copy including articles by well-known designers Bruce Farr and John Marshall.

Adams acknowledged that Tasman had employed the debt collection agency, but said he could not tell *NBR* how to contact the principal of the agency.

The dunning letters sent out by the debt collector carried a post office box number to which the money was to be sent. This number is the same as that used by Tasman Publishing.

Tasman Publishing, previously, published several trade magazines with a relatively high advertising content.

Last year, *National Business Review* checked randomly among advertisers appearing in those publications. We found that some ads, had been sold over the phone without written orders, and others had been placed in the publication without any order from the advertiser.

Nevertheless, invoices were sent out, billing the "advertisers".

In some cases, junior accounting staff had made payments to Tasman in the belief their companies' ad managers had ordered the ads, but the ad managers claimed they had never heard of the publication and could not recall ever authorising the ads.

In the past, rival publishers, objected to Tasman's choice of titles for its publications.

The Business Press Association has placed ads in member publications warning readers to beware of imitations: "make sure you're talking to the right people and if unsure, call back".

Advertisers have been known to confuse similar-sounding names for rival publications and to have sent ad money to a publication they never intended to support.

Its latest publication, *Consumer's Shopping Guide*, has brought Tasman up against the influential Consumer's Institute.

Consumer's Institute is concerned that the public might confuse its publication, *Consumer*, with Tasman's.

Companies billed for 'surprise' advts

by Warren Berryman

Maori Warden News, a new quarterly magazine produced by REM Printing and Publishing, has been billing advertisers for ads which some, advertisers claim they have not ordered.

The president of the New Zealand Maori Wardens Association Inc and editor of the magazine, Peter Walden, said he was concerned that these invoices were going out under the name New Zealand Maori Warden Association Inc News, with which his organisation had no connection that he knew of.

The phone and post office box numbers on the invoices did not belong to his organisation, Walden said.

The second issue of *Maori Warden News* reached its readers last December with 76 of its 126 pages packed with advertising from such heavyweights as Bank of New Zealand, Dunlop, Niven Process Engineering (NZ) Ltd, Challenge Computer Systems, and the Department of Justice.

NBR phoned 12 of the companies whose ads appeared in the magazine. Six of them said they had never heard of the magazine; eight said they did not authorise the ads, two of the eight said their accountant paid for the unauthorised ad by mistake.

One advertiser said he threw the invoice away. Another said he authorised the ad and had no complaints. Two said they felt they had "been sucked in" to authorising the ads over the phone.

Walden said his organisation distributed the 2300 copies of the magazine, supplied the editorial copy and photos, and did the editing free of charge. He said the Maori wardens derived no financial benefit from the magazine's advertising revenue. His association received only a free magazine, he said.

Assuming all the ads were paid for, the ad revenue for one issue of *Maori Warden News* should come to about $27,000, less ad salesmen's commissions.

Two Auckland publishers estimated publishing costs of the magazine at about $4000.

Walden said the magazine went to Maori wardens, committees supporting Maori wardens, and various Government departments.

He said the Maori Wardens Association was incorporated last February.

But last July, a Jack Challinor who worked out of REM's Wellesley Street office, came to him with the proposal to print a magazine for the association, Walden said. His association was in no position to publish its own magazine.

The title page of the magazine does not name a publisher but it says the magazine is printed by REM Printing Co.

REM Printing and Publishing is an unregistered company run by partners Terrance Lambert and Brian McSweeney.

Other REM publications include *Port News*, *Riding Tall*, *Firelines*, *New Zealand Building Inspector*, the *New Zealand Farmworker*, *Ambulance News*, and a magazine for the 28th Maori Battalion.

REM publications serve as the official organs of trade unions, industry groups, or charitable organisations.

REM sells much of its advertising by phone. Past *NBR* inquiries into REM operations revealed that some advertisers claimed they had not ordered advertisements or had ordered ads over the phone in the belief they were either buying industrial peace from a trade union or supporting a worthy cause.

This belief was based on their assumption that the ad revenue went to the body for whom the magazines were published.

Ad agencies point out that the client's advertising dollar goes further if the medium is well matched to the product and care is taken to ensure one buys the biggest readership of potential customers when selecting an ad medium.

Thus, ad agency media buyers find it strange to find ads for industrial filters and computers in a magazine aimed at 2300 Maori wardens and their supporters.

Challinor said he had been in hospital since he organised the magazine last year. He said he had not even seen an issue of the magazine, thus he was unable to answer inquiries about invoices, ad revenue, or how the advertiser for industrial filters came to find his ad in *Maori Warden News* when he claimed he had not ordered the ad.

Metro makes its mark

AUCKLAND's new glossy magazine, the *Auckland Metro,* hit the news-stands on May 7, boosted by a $38,000 advertising push, spread through saturation advertising on three radio statioos, full-page ads in the *Herald* and *Star,* and posters oo 200 city busses.

The 116-page first issue carries some 20 pages of advertising. "We've had reasonable response," says Southwestern Publishing Co director Bruce Palmer. "Many advertisers have an in-built conservatism and are hanging back to see how the first copy looks." He said the staff were "elated" with the issue.

It's an upmarket publication aimed, says editor Warwick Roger, at publishing "articles of more than 250 words for people whose lips don't move when they read."

The *Metro,* with a print run of 23,000, will sell at $2 a copy and be distributed mainly in the Auckland area. It is on sale in Foodtown and Woolworths supermarkets as well as the usual magazine outlets. It will also be air-freighted to Sydney where Southwestern has steady sales of its *NZ Runner* magazine.

Included in issue one are a feature on the marketing of the yacht, Ceramco New Zealand, and a pictorial look at the homes of some of Auckland's better known citizens. The *Metro* will have regular columns on sport, gardening, theatre, food, films and music.

Roger and Palmer are confident of success. "City magazines overseas are the *fastest-growing* section of the publishing industry. Every major city – London, New York, Sydney – has a magazine like *Metro.*"

It will be published monthly, and Palmer says he has set no deadlines for deciding whether it will succeed or fail. "I think we'll know by the end of May how well we'll do."

Award to Consultus

WELLINGTON PR firm Consultus capped off its first year of business by winning the Peter Cherrington Memorial award for the outstanding public relations project of 1980.

The winning entry was a campaign for Ivon Watkins-Dow supporting the use of the controversial agricultural chemical 2,4,5-T.

"In a defensive campaign of this kind, you start off on the back foot," Consultus principal Robin Clulee told *Admark.* "Our client was totally committed and utterly frank in dealing with opposing points of view. The client provided all the support we needed to do the job of combating emotion with reason and opinion with fact."

Our message in German

WEST GERMAN businessmen in Dortmund, Bremen, Hamburg, Mannheim, Augsburg and Bonn will see a 35-minute audio-visual show on New Zealand at functions this month which is designed to give Germans an impression of the country and its development projects.

The show has been scripted and developed by West German trade officer Rudolf Rindermann, who says that Germany is so busy working on projects in other parts of the world that New Zealand is virtually ignored as a potential customer. He would like to see this country rising from its present low-rating status as 67th on West Germany's trading list.

Rindermann has spent several months working on the show. Production is by Anson and Associates with music by Keith Ballantine. Photographs were supplied by New Zealand companies and government departments.

Most of the commentary is by Rindermann himself, but a woman's voice also features in fluent, lilting German. Whose is it? None other than that of Annie Whittle, who sang with Rindermann's jazz band in Europe in the early 1970s.

Counter signed

WORKERS from Lintas, an ad agency based in Parnell, must have been somewhat nonplussed when driving to work recently to find that a huge Lintas hoarding at the foot of Parnell Rise was featuring some unauthorised wording.

Some midnight signwriters had added the legend "welcomes Campaign to Parnell" underneath the big Lintas heading at the top of the billboard. Competing agency Campaign had just moved into Parnell the weekend before. No prizes for guessing who was responsible for the artwork.

Airborne airwaves

THE war of the airwaves in Auckland is extending into the air itself with the BCNZ's 1ZB and up-and-coming private station Radio i both using aircraft for traffic reporting during the morning and evening rush-hours.

Radio i planned to launch its *Eye in the Sky* service (or *i in the Sky,* depending on whether you're reading or listening) on the Wednesday after Easter.

Lo and behold, 1ZB was chocks away 12 hours earlier, on the afternoon before.

The timing was "largely coincidental", we're told by 1ZB programme director Don Corban, who assures us that there's no conflict between the two stations, just "healthy competition". 1ZB had planned the service for some time, he said.

Corban was unwilling to reveal how the 1ZB service is being paid for or how much it is costing or which aviation firm is providing the aircraft. The cost is partly borne by the BCNZ.

But Radio i's manager, Graeme Edwin, who has started the easy-listening station on a ratings climb since arriving from Perth to take over the reins, told *Admark* that their reports from the sky are costing $1200 a week. Four-seater planes are being chartered from Dalhoff and King.

Traffic and beach reports from the air have been part of the Auckland scene for some time, but this is the first time radio stations have embarked on what they hope will be permanent airborne reports in rush-hour.

Radio i is working in conjunction with the Ministry of Transport, which is using the service to conduct a three-month feasibility study on the worth of the idea. Radio i is bearing the costs at present.

Veteran radio reporter Bill Mudgeway is the station's airborne traffic observer, and an MOT staffer is on board every day too. "They've been rapt," says Edwin.

"As a result of getting an overview of traffic situations, an extra lane has been opened to city-bound motorists in the mornings at Pt Chevalier where there'd been big bottle necks. We've heard that people have got to work 16 minutes earlier because of the change."

Ad art goes on show

AN exhibition of advertising art is planned by the New Zealand Academy of Fine Arts for July next.

"The idea was suggested last year by Jim Belich, current president of the 4A's," the academy's director, Guy Ngan, told *Admark.* "We are hoping for a good response from commercial artists and advertising agencies."

The aim of the exhibition is to present "The best available visual communication material as an art form used in advertising in New Zealand for the last twelve months."

About 150 works will be selected for hanging by a panel of selectors including Guy Ngan, Design Council director Geoffrey Nees, and two still to be selected, a practising artist of high standing and a nominee of the Association of Accredited Advertising Agencies.

Entries are being received during June.

Theatre groups getting more 'bums on seats'

by Rae Mazengarb

WHEN Auckland's Theatre Corporate was formed in 1974, some critics wagered it would end in disaster. Other professional theatres had come and gone; there was no reason why this one should be any different.

Yet Theatre Corporate entered 1981 on a wave of community support that showed clearly it was different, and that it had made the grade. Last year's audience figures were up 20 per cent on the previous year.

Rival Mercury saw an audience increase of 21.6 per cent over 1979 figures, bringing total attendance for the year to 138,500, or 17 per cent of the Auckland population.

Wellington's Downstage Theatre can boast increased audience numbers of 23 per cent for the 1980 year. The other major theatres are just as happy.

As one critic notes, it has almost slipped by that people no longer talk in terms of the main theatres being about to fold; rather they talk in terms of a constant professional standard.

So why should the six main community theatres, and the New Zealand Opera and Ballet companies, wind up with a collective deficit of more than $400,000 as at last year?

And why did Wanganui's Four Seasons Theatre, Gateway and Central theatres collapse, in some cases after periods of apparent success.

It's almost a paradox that while the theatres appear to be doing well, it is becoming harder for them to make ends meet.

Theatre people say that, unlike other businesses, their product must be subsidised for it to pay, despite any success at the box office.

Faced with soaring overheads, falling Government grants (in real terms), the underpaid actors and directors are often flying in the face of their artistic principles in their efforts to place "more bums on seats".

Some critics say that artistic matters and some directors' grandiose visions of what theatre should be doing lie behind the current financial problems besetting them. Artistic principles have been costly in the past, they say.

Others say there has been too much emphasis on expensive productions, without regard to the length of season required to recoup expenses.

Downstage incurred a deficit of $80,000 last year, despite a QEII Arts Council grant of $210,000.

Losses of this size caused the company to take a hard look at its activities.

At one stage it was rumoured the board of directors intended some "drastic action" which included firing all the acting staff, a plan which QEII would not accept, without withdrawing the grant.

Instead a zero-based budgeting exercise coupled with a seasonal programme approach was suggested so Downstage could at least break even in the next 12 months.

Administrative director Chris Prowse defended the company's performance with the comment that expenditure on production had been almost static for the last two to three years. Administration costs had been held in check too, he said.

But inflation had hit all the theatres much higher than other businesses. Salary increases – particularly an the production and technical side – had also become a burden especially as the QEII grant had not increased in real terms over the last six years, Prowse said.

Advertising (up 40 per cent), electricity and heating costs had spiralled.

And in the last year the overtime element had been written into the award covering technical warkers in community theatres, making changeover periods between plays far more costly.

Unlike theatres which own their own buildings or pay a peppercorn rental, Downstage pays a top rate for its facilities, though audience capacity is just over 200, small in terms of overheads, compared with Mercury, with a capacity of over 500 paying theatre-goers.

All these factors make it increasingly difficult, though not impossible, to break even with the current level of grants. A constant audience level 85 per cent of capscity is all that Downstage requires.

Observers say better planning and management is also needed.

Noting that a subscription campaign was risky, and complicated by Downstage's membership structure, Prowse said the major thrust would lie in seasonal selling.

This year there will be nine major productions in three seasonal blocks. Sets will change for each production, but not the stage situation. That will remain in the same position for the entire season, eliminating some labour costs.

Downstage wants QEII funding to increase to $250,000 this year, but while decisions will not be made until July, there are already indications that none of the Arts Council clients should expect an increase in their grants.

This means educational functions such as Stage Truck will be put into recess. Last year this exercise met with a deficit of $16,000, despite an Education Department grant of $8400.

Prowse acknowledges its importance but said, "How far can we go to support it? The point comes when we have to start cutting off limbs."

They are talking to the Wellington City Council about the possibility of a lower elec-

... but finding it harder to make ends meet

tricity rate, which could save them $9000.

But the Wellington City Council, like ather local bodies, is not keen to subsidise the community threatres.

Forward planning is difficult without an on-going guarantee of continued funding, but Downstage directors say 1981 will be a balsncing act between the practical problem of "staying alive" and the need to preserve artistic principles.

Elsewhere, community theatres are struggling financially, despite audience support. One observer noted that their plight wsa not helped by QEII's attitude, summed up by former council chariman Hamish Keith; at the launching of Mercury's subscription campaign, Keith suggested this was a project very dear to QEII's heart because it was distant from its purse.

Mercury's business director Chris Mangin told *NBR*: "We fear perhaps a negative factor at work. Those theatres which achieve fiscal success may suffer at the hands of those dolling out the grants."

Mangin says Arts Council grants to Mercury have decreased in real terms for the past four years. Despite the cutback, Mercury had its greatest financial success last year and may see an operating surplus of $9000.

But all things are relative, and though promising, the expected prafit pales against an accumulated deficit of more than $124,000.

Mangin said that included in that figure was s depreciation figure of $52,000, but unlike other businesses, the theatres could not establish a sinking fund for re-equipment.

Aside from a 50 per cent rebate for rates, local bodies do little in recognitian of what the theatre does in terms of a city's wellbeing, he says.

Ideally, theatres should be funded one third through the box office, one third through grants and one third by local bodies, he said.

If that had happened last year, Mercury and the other theatres would have been in a very healthy position, but local bodies nationwide appeared very unwilling to enter into such a scheme, Mangin said.

Court Theatre's artistic director Elric Hooper, agrees that in terms of what his theatre brings to Christchurch, what the council gives in return is "miniscule".

Yet he pointed out, that overseas city fathers used professional theatre groups as "part of their civic propoganda effort", using the local talent to attract business into the area.

Court has been playing to full houses lately, but rising wages have been hitting the company hard. Ironically, one of the clerical staff was earning more than the leading actor, Hooper said, a situation he described as "shameful".

Despite careful budgeting, Court is in a "constant crisis", with overheads alone rising 75 per cent last year.

In something of a cleft stick, Hooper says the options are to raise prices, hope for an increase in the Government grant, or more apparent financial support from the council, or increased sponsorship from local business.

With ticket prices around the $7 mark already, Hooper says that option will alienate theatre-goers; some local business support is given, but few companies base their head-office in Christchurch and this affects their willingness to give.

Government – central or local – has the magic answer, it seems.

Even Palmerston North's Centrepoint looks headed into another tough period of uncertainty, though audience levels have constantly been up to 80 per cent plus capacity.

Director Murray Lynch said QEII's grant of $82,000 last year did not cover one-third of total costs; Centrepoint was investigating the possibility of getting the electricity rate dropped but so far, there was "no enthusiasm" from the local supply authority, he said.

Around the country, the story is the same. The community theatres are retrenching, pruning back on controllable costs.

Mangin says in fact they have become static, and regional touring – not a QEII priority – has gone by the board.

Mercury had a performance in schools scheme on the drawing board which was budgeted for $48,000. With Education Department grants nearer the $8000 mark, Mercury decided the time was not appropriate to start, he said.

Because only 24 per cent of Mercury's income comes from Government grants, the theatre relies heavily on business sponsorship and its own capital-intensive marketing efforts.

To ensure high audience levels Mercury now employs seven people full-time on the marketing side, working on hard-line "dynamic subscription sales" methods.

Techniques such as direct target mailing, newspaper and radio advertising, brochures, and direct follow-up by telephone are employed with great success.

On the sponsorship side, Mercury holds campaigns twice a year to try to attract support from the business community. By donating a sum, the business become in effect "clients" of the theatre, receiving in exchange a range of services – free use of function areas, catering services, back-up advertising – or tickets to the shows for major clients or staff.

Mangin says the support is definitely there, but "we've only really scratched the surface."

Environment

'Fast-track' Crown water rights, through back door

by Ann Taylor

FAST-track procedures to grant the Crown woter rights are being hung on the coat-tails of legislation which purports to protect wild and acenic rivers.

A consensus was reached in November lost year on draft legislation whicb would enable regional water authorities to designate and protect "wild and scenic rivers".

The resultant "white draft" has since been altered by the Ministry of Works to allow Works Minister Bill Young a "final, non-reviewable miolsterial dlacretloo on Crown water rights," as one irate source maintains.

The Minister, under the new draft, could by-pass the Planniog Appeal Tribunal and effectively direct which rivers will be used for hydro-electric generation without reference to either the regional authorities or the Planning Tribunal. *NBR* understands he would be able to direct the Planning Tribunal to make a recommendatioo only on an appeal which would not be binding on the Crowo.

Two years ago, the Government announced its intention to provide protective legislation for wild and scenic rivers.

A full review of water and soil legislation to rationalise the two current acts — the Soil Cooservation and River Control Act 1941 and the Water and Soil Conservation Act 1967 — has been in the pipeline since 1972.

Addressing the Municipal Associations early last month, Young said it was not likely to be introduced this year "as I had hoped".

"At least the claim of undue haste cannot be sustained," he said but: "Nevertheless it is intended to introduce an amendment . . . to futher protect, where sppropriate, the natural state of our rivers and streams."

A committee was set up last year to oversee the implementation, of the policy. It was charged with making recommendation to the Nstional Water ond Conservation Authority — the national wster authority.

The Commission for the Environment, Lands and Survey, Internal Affairs, Ministry of Works planning division, the QEII Trust, the Forest Service and catchment authorities were represented.

They agreed on criteria for rating a river of "national importance" by virtue of its scenic, recreational or scientific value. Procedures for setting aside areas with the same effect as a national park area were agreed to.

The committee agreed to amend the water and soil leglalation to allow for rivers of "national importance" to be designated by Order-in-Council.

NBR understands the committee coosidered the procedures decided then to be ready for gazetting.

The first the other parties heard of changes effected by the Ministry of Works was at a Save the Rivers campaign meeting in Wellingron three weeks ago, when Woter Resources Council chairman Malcolm Conway intimated there had been a rewrite.

Nobody was allowed to see the rewrite at rhat stage. Acclimatisation society and Commission for the Environment members met Young, Environment Minister Ian Shearer, Energy Minister Bill Birch ond Ministry of Works head of water and soil conservation, Warren Gibson.

The legislation was mentioned then but thcy were not ollowed to see a draft.

A week later, the rewrite was given to the departments concerned and an "officials committee" meeting was called by the MOWD.

That meeting, to rubberstamp the new draft, was not attended by the original Ministry of Works representatives. Nor was the Forest Service invited.

Departmental representatives feel that Works has been "steam-rolling" over other departments and regional authorities in an effort to ensure fast-track efficiency.

They are now taking their case to their own Ministers, who they hope, will put their anxieties to Bill Young.

Works sticks to its story that it is working on "a mechanism for the protection of wild and scenic rivers," but one official conceded there "might be something tagged on at the end of the amendment".

The draft amendment Bill does give statutory recognition and proteetion to instream users.

And it formalises the planning process by requiring regional water allocation plans to be drawn up by the regional water boards.

Under the plans an area or river could be designated as protected for fishing, recreation and so on. Previously, the Act required the boards to measure water reserves and issue rights.

Some planning needed to be done where demand exceeded supply. To date, it has been done informally, with no statutory basis.

This gave o board no legally binding allocation plan on which to defend itself should there be a court appeal over a water rights decision, the MOWD claims.

The water allocation plsns would be open for public comment aud objection. But what is given with one hand is taken away with the other. The Minister's final word on Crown applications makes nonsense of notions of public participation.

The requirement to supply a regional water allocation plan is worrying some authorities which rely heavily on Government grants to supplement what income they get from rates.

Andrew Dibble, of the Auckland Regional Water Board, said: "Before the Government asks us to do this and that, they'll have to look to funding."

The catchment authorities conferred in Timaru three weeks ago and set up s committee to look at the legislation proposed before the appeal procedures were changed.

The Catchment Authorities Associaton president Ewen Cameron, says it welcomed the clarification of instream users and was in favour of the recognition inherent in the proposed legislation of canoeists, fishermen and trampers as users of water.

There was some iodication that rivers designated of national importance in a scenic sense would then be removed from the authority of the authorities.

But the carchment boards did not want their authority whittled away and wanted to stoy "dominant and in command".

"You can't fragment rivers," said a spokesman. "Catchment boards must be the primary decision-makers on the uses of rivers," he said.

The delays are frustrating some authorities, which have decisons pending final enactment of the legislation. The authorities have not been supplied with the rewritten draft.

The fast-track provision appears to be the reason for the Government's haste to enoct this legislation.

In November, TVNZ's *Closeup* programme looked at the Lower Waitaki and Clutha Rivers in terms of their appeal to recreational groups. Birch, Forests Minister Venn Young and Lands Minister Duncan McIntyre objected on the grounds that the programme lacked balance.

But some of the criticism waa taken to heart, and the wildlife division of Internal Affaira waa asked to prepare a report, which apparently was highly critical of Government policy and supported the stance adopted by the acclimatisation societies. That report has yet to be made public.

Wild and Scenie Rivers Action Committee convener Tony Brunt is planniog to establish committees around the country of representatives of user groups to work at a local level witb catchment boards, MPs and county councils towards setting aside river areas for reserve.

He is concerned, without having seen the rewrite, that the legislation will not sufficienrly provide for the permanent protection of rivers.

Brunt wants a clear designation to protect rivers "like a national park".

"It should be visibly protected and given a clear designotion under the legislation, rather than this fairly obscure form of preservation," he aaid.

Bill Young . . . final say

Taronaki has probably had the greatest pressure on its water resources recently because of the synthetic fuel projects there.

Taranoki Catchment Commission manager John Douglas said that if an allocation plan had been drawn up for the Woitara River, it would have had to be reviewed 10 times in the last two years.

Resource development

NZ engineers worried overseas project contractors will leave only the crumbs for local industry

"FOR employment opportunities to be lost as a result of New Zealand's system not being geared to industrial development would indeed be a national tragedy." — Brian Tolley, executive chairman, Tolley Holdings Ltd, April 14, 1981.

Rival company chief Bill Steele, of Cable Price Downer, disagrees with Tolley's assessment that local industry is in danger of losing work that could be done here.

But Tolley's fears reflect a growing concern among manufacturers about how much, or how little, work they will see from the big projects being developed over the next decade.

How could they miss out? Are their fears justified?

Allan Parker, in a series examining problems and concerns surrounding the "Think Big" projects, looks at local industry, its capabilities and the fears that work will go off-shore.

IF design engineers, look at what is and say "why?", then their industrial counterparts are looking at what could be and saying "why not?".

Increasingly, manufacturing engineers are wondering just how much work will fall their way when the major and sub-contracts are let.

They do not expect to collar the lot — the scale and technical requirements will keep much of the major work out of New Zealand fabrication shops.

But they are naturally anxious to preserve as much as possible for themselves. And while the politicians continue to promise full order books, few companies have seen cheque book evidence of the riches they have been guaranteed.

Only a handful of the projects have yet reached the green light stage; the majority, notably the energy-based projects, remain election-year dreams.

In the meantime, engineering workshops facing a depressed market are trying desperately to retain what skilled tradesmen they have left in anticipation of the political promises becoming definite work. (*NBR*, May 4.)

As one industry representative noted: "Things are so bad that a lot of shops have got their best tradesmen cutting up scrap, just to keep them on."

As this situation has continued — and survival become the only possible forward planning — private murmurings have become public pressure for the Government.

Even for those companies able to project their thinking beyond the next day, scepticism of the New Zealand content of the major projects remains and grows.

In particular, they worry about the modular pre-assembly concept behind many of the planned developments. Under this system, major overseas project principals will let major sub-contracts to those companies who have the size of operation, experience and technical skills to provide an "in-and-out" job on the construction site.

Invariably, no New Zealand company will have the capacity or skills to perform these major pre-assembly operations. The contract will go to an overseas contractor (more than likely one with which the principal has had prior dealings), leaving local manufacturers the bits and pieces to be added on-site.

To be fair, most local companies would accept that this is probable. But they question the degree of local content that this may allow.

The project principal, for example, is working within contractural obligations worth hundreds of millions of dollars. Time delays caused by dealing with a myriad of relatively tiny industrial operations scattered throughout New Zealand will threaten those obligations.

Equally, an absence of formal technical or quality assurance systems, at least ones the principal recognises, will hardly be reassuring; far better for him to work with experienced companies which have a familiar quality assurance system or have a proven track-record.

Another fear increasingly common in engineering industry circles is the vulnerability of New Zealand companies to the large overseas principals, particularly if the latter choose to manipulate the projects to suit their own timetables or exclude local componentry in favour of an overseas competitor.

Without exception, engineering industry executives *NBR* spoke to for this series have voiced this fear or at least agreed it is a real one for them.

How could this come about?

An overseas principal puts componentry manufacture out to tender both locally and internationally. A New Zealand company is among the tenderers and is competitive.

But the principal has a "mate" or previous supplier down the road from his American (or Japanese, or German) head office who, because of his size of operation, has the same piece of equipment already made or available with minimal lead time.

The New Zealand company, on the other hand, requires a lead time of up to six months to get his raw materials, let alone manufacture, despite his price competitiveness.

The principal thus delays the contract-letting until the New Zealand company cannot hope to participate under the contract requirements. The principal offers the job to the New Zealander, who must decline it.

That leaves the principal free to tell the New Zealand Government that it has endeavoured to give work to New Zealanders, who cannot perform. The principal is then free to go to his "mate" down the road back in Los Angeles, (Tokyo or Munich).

End of story, end of local content.

If that seems fanciful, consider the slipping lead times already occurring on construction start-ups for many of the major projects earmarked for New Zealand. Note, too, that commissioning dates have not slipped in unison.

And a senior Trade and Industry official has told *NBR* that this type of manipulation by an overseas principal has happened in New Zealand before.

The third major fear about the extent of local content is the lack of commitment or desire for expediency among official planners and decision-makers.

Many Government officials are working in uncharted territory, particularly with the highly-sophisticated energy projects.

Local engineers worry that they will choose the "soft" option when finalising contracts by allowing work that could be done in New Zealand to be performed by overseas companies with a proven history.

Reasons include:

- Pressure from political bosses to get the job done;
- Fear of problems if a New Zealand company has to work with an overseas principal;
- Incomplete knowledge or understanding of local capacity and/or capability; and
- "Hard-sell" persuasion by overseas companies.

Unlikely? Remember the Liquid Fuels Trust Board attitude over a feasibility study into Southland's lignite deposits. (*NBR*, May 4.)

And engineering industry representatives who recently toured the United States to look at energy and construction firms there have voiced their concern about this potential to Trade and Industry Minister Lance Adams-Schneider and Energy Minister Bill Birch.

They were referring in particular to Mobil's synthetic fuel project, but their comments hold true for most of the major developments.

In a post-trip, interim-briefing session, they told the two Ministers: ". . . the industry is concerned that it may be expedient for the principal contractor, and convenient for planners, to effectively exclude New Zealand manufactured content from the project.

"In view of the modular concept of construction which will be used, this would not be difficult.

"Should this occur, New Zealand participation in the project would be limited to on-site preparation and assembly and potential added benefit for New Zealand engineering manufacturers, and for the country, would be lost.

"It is feared that the modular concept will circumvent the tariff advantage and licensing protection which would otherwise be available to New Zealand manufacturers."

The prime instrument for preserving New Zealand content is the import licensing system. It is also the prime instrument for maintaining the Government's general policy of maximising local input to the projects.

At some stage during a particular project development, the principal or major sub-contractor will, therefore, have to seek official approval to import plant.

Trade and Industry policy is to issue a blanket licence for the whole plant. Then it deletes componentry that can be made in New Zealand workshops.

The system is thus broad, rather than specific in concept and operation. New Zealand manufacturers must prove they have the ability to perform; the burden of proof rests on local industry.

A senior department official agreed that the policy operates in "broad terms" but insisted that official intention is to carry out the Government's "declared general policy" of maximising local content.

On a superficial level at least, the officials will certainly endeavour to favour local industry.

But the broad nature of the policy — and the type of pressures outlined above — make the system vulnerable to expediency.

Fast-track planning, too, contains a similar element of uncertainty. Designed to eliminate or reduce planning requirements, the legislation contains no specified criteria for local content.

So, manufacturers continue to worry about the amount of local work they can expect to see from the projects.

One engineering company executive outlined his company's experience in trying to obtain work on an energy-based project.

The company applied political pressure for New Zealand content in the project and was subsequently asked to tender for some of the plant componentry. But when contracts were let, the company ended with work valued at a few thousand dollars.

"We just got peanuts; the whole thing was a [illegible] front," the angry executive told *NBR*.

"We just got the scraps."

He rejects arguments that New Zealand industry is too small to undertake much of the project work.

"If we're given a chance to perform, there's an awful lot of slack to take up. We're running at about 60 per cent capacity on a day-by-day basis; we could easily get up to 120 per cent."

He believes Government officials underestimate local engineering capacity and are therefore hesitant about insisting that the overseas contractors employ local companies for fabrication and sub-contracting.

In a letter to *NBR*, he said: "I am sure that if the industry as a whole throughout New Zealand is offered 'on paper' more than it can handle it will find within itself the capacity to expand and accommodate the work offering.

"This could come from a multitude of sources: longer working hours, increased efficiency through better plant utilisation, the attraction of semi-skilled and skilled labour back into the industry from alternative work areas in New Zealand and from overseas, the capital expansion of existing facilities, the creation of new engineering industries and the natural deferment in demand for engineering services from other industries who are capable of delaying their own engineering projects for a few years."

Obviously, any one of these suggested sources could prove difficult to put into practice. But our correspondent is presenting a confident package that he sums up as: "It's a question of intent; given the political and principal's intent to use local industry, we'll find a way to accommodate it."

Certainly, manufacturers generally are encouraged by political assurances that New Zealand industry will not be forgotten in the race to complete the projects. But, like our correspondent, they are reserving judgment until those assurances are transformed into a more tangible evidence.

Despite the political promises, there have been a number of signs that local industry should not expect to get the work as of right.

Prime Minister Rob Muldoon, opening an international contractors' conference in Auckland last February, told the gathering: "The New Zealand Government is happy to accept overseas contractors, especially where we lack appropriate skills. It has been long-established practice to work through joint ventures with the advantage of both local and overseas experience combined.

"In special cases, overseas contractors have been used, notably the Tongariro hydro-electric power project tunnel with Italian labour, but there could be restraints on the use of overseas labour if those with equivalent skills are unemployed in New Zealand.

"Otherwise, the only requirements for overseas contractors is that they tender competitively and conform with New Zealand company law and tax requirements."

Muldoon qualified the last statement by noting that the Government will pay special attention to maximising the New Zealand content. But it illustrates the lack of specific criteria for local content. And, more recently, Birch made it clear to industry representatives that support for local industry for support's sake is not an acceptable policy to the Government as it would perpetuate or generate inefficiency.

Not surprisingly, Birch has not voiced this feeling in public.

A senior Energy Department offical has also expressed concern about the consequences of a policy which would, in effect, guarantee a New Zealand supplier participation in a project without commercial restraints, technical requirements and so on.

To a certain extent, local industry is in a cleft stick over the issue of domestic participation in the projects.

It wants to ensure it gets the work but such a safeguard could only come from Government direction.

But industry generally believes there is too much Government control in business, anyway.

The Government is aware of the impasse and officials are now trying to put together an acceptable draft policy on local content that will satisfy New Zealand business interests, yet ensure the projects do proceed.

An indication of Government thinking was given by Muldoon at a post-Cabinet press conference on April 13.

He considered there were two ways to ensure "full utilisation" of New Zealand resources — "you can do it through the contracts or you could even do it through legislation".

He said he did not have a personal preference "but I want to see it done, and that's what we are setting out to do".

Local workshops . . . "a question of intent".

Among specific criteria suggested to *NBR*:

- A specific content percentage for New Zealand industry;
- A cost preference margin for local suppliers of say, 10 per cent, which proponents argue is used overseas; and
- Even a specification that management contracts be handled by a New Zealand registered company which would at least ensure foreign contractors and principals have an understanding of New Zealand conditions and attitudes.

Australian state and federal contracts insist on and specify local content, say local manufacturers. Why not here?

Certainly, until some Government indication or direction about precise New Zealand content criteria emerges, suspicion and scepticism will continue.

How long the Government can delay such an admittedly difficult decision in election year remains to be seen.

NEXT WEEK: Investment issues — the North Sea factor, balance of payments and notional debt.

Overseas trade

Taiwan adopts more aggressive trading posture

LABOUR MP John Kirk, whose father broke off diplomatic relations with Taiwan to recognise Mainland China in 1972, has blamed lack of official contact with the Nationalist Chinese for lost export deals.

New Zealand, said Kirk after a visit to Taiwan, is cutting its export throat because of the Government's 'cold shoulder' policy towards the island stronghold of the Nationalist Chinese.

Other nations, notably European countries and Australia, are sending official trade and diplomatic representatives there to secure trade deals, said Kirk.

Foreign Minister Brian Talboys responded that, while New Zealanders are free to trade privately with the Taiwanese and are encouraged to do so, New Zealand officially will remain linked with Peking. Trade with the mainland, noted Talboys, is almost double that with Taiwan, and New Zealand would not want to prejudice these diplomatic and commercial links by establishing an official presence in Taipei.

Today, only 22 countries formally recognise Taiwan, the majority breaking formal ties in the three years since the United States opted for the Peking government.

But rather than accept isolation, the Taiwanese have adopted a more aggressive foreign policy. The *Financial Times'* David Housego, who like Kirk was recently in Taipei, reports that this new policy is bearing fruit.

NOBODY could be more delighted than the Taiwanese by Peking's present economic difficulties and the damage to its image as a trading nation since it abruptly cancelled multi-million dollar international contracts.

Over the past three years, the anti-Communist Kuomintang Government of President Chiang Ching-Kuo has suffered the psychological blow of seeing its main ally, the United States, break off diplomatic relations, bringing in tow such unpleasant consequences as expulsion from the International Monetary Fund and the World Bank.

It has also watched pained as the other major industrialised nations have been dazzled by Peking's promises of riches to companies participating in developing the mainland's resources.

Taiwanese officials, with their low regard for the competence of Peking's Communist regime, always thought this a pipe dream. Now that disillusion has set in they cannot resist a smug "I told you so."

But they have other causes for satisfaction. They do not expect President Ronald Reagan's Administration to keep rash promises about Taiwan made in the election campaign.

But they do believe Washington is ready to sell it F16/79 or F5G defensive fighter aircraft — however much it angers Peking — and that they will be able to re-open offices in Boston and Atlanta denied them by former President Jimmy Carter.

Taiwan has been pursuing a more aggressive foreign policy since Washington normalised relations with Peking and showed how vulnerable Taiwan had become because of its dependence on the United States. That policy has begun to bear fruit.

It was the forcefulness of Chu Fu-Sung, the new Foreign Minister, which brought the Dutch to risk Peking's wrath by selling submarines to Taiwan, thus achieving the island's most spectacular success in enhancing links with Europe.

West Germany will be setting up a trade office in Taipei this month. And the talks with European Economic Community governments over Taiwan's offer of further preferential tariffs for European products have added to Taiwan's status.

The bait Taiwan has to offer is a record of economic success which surpasses the mainland's, and a larger volume of international trade — $31 billion in 1979, compared with China's $29 billion. As a result of the submarine sale, the Dutch have won further equipment orders.

It is being hinted that other European companies will be considered favoured bidders for nuclear power plant equipment and other infrastructure contracts. As with Taiwan's purchase last year of the European Airbus, such orders are also intended to offset protectionist pressure in Europe against Taiwan's own exports of televisions, footwear and textiles.

Taiwan is also looking abroad for more funds to finance its development programme, thus making it more attractive to European banks, which are being favoured among the institutions seeking offices in Taipei.

Taiwan raised $1.2 billion in commercial credits in 1980 — a fourfold increase from 1979 — and expects to raise over $2 billion this year. With its high standards of education and large tax allowances it is also sucking in impressive flows of foreign investment, which reached a new peak last year of $480 million.

Philips is the largest foreign investor in the fast-expanding electronics industry, and Grundig is enlarging its television factory.

All this provides a welcome boost to confidence in an island of 17 million overshadowed geographically by a mainland with a population of more than one billion, and which proclaims Taiwan as the smallest (though most prosperous) province in its empire. The Taipei regime is now recognised by a meagre cluster of only 22 nations.

In off-guard moments, Taiwanese officials themselves speak of deep-rooted insecurities and fears about the future. Can the island maintain its separate identity indefinitely?

Where will their children grow up and work? These are particularly hard questions for the "mainlanders" — the 20 per cent of the population who fled after the Communists took the mainland in 1949 — who cannot conceal their passionate curiosity about all that happens across the water.

Peking has become increasingly skilful in playing on these uncertainties. It has never relinquished its right to take Taiwan by force. But it also holds out blandishments of trade with the mainland, travel, increasing cultural contacts, family reunions and prestigious jobs.

An official told recently how he had received a letter from a brother still living on the mainland, speaking of the hardships of the Cultural Revolution but adding that life was much better now and that he hoped one day soon they would meet again.

After 30 years of separation it is tempting to think this is an appeal from the heart rather than planned propaganda.

The Kuomintang Government's major fear is of the poisoned chalice of absorption by assimilation. But the party leadership is also nervous at the demands of the more vocal indigenous Taiwanese — some 80 per cent of the population — that government be by majority rule.

It was in part the frustration at being accorded second-class status that lay behind the riots in the southern town of Kaohsiung in December 1979.

The shock of that incident speeded up reforms to bring more indigenous Taiwanese into government.

The combination of economic success and more political confidence none the less means the regime is not as repressive as it was. It is also backing down from some rigid Kuomintang doctrines left untouched since the 1930s when the party still held power on the mainland.

But the Kuomintang cannot go too far in dismantling old orthodoxies. The legislative assembly still includes so-called representatives of the mainland provinces and has an average age of 75.

The threat from the mainland justifies the spending on the military and security forces which absorb 40 per cent of the state budget. Strong vested interests thus continue to prop up the fantasies of bygone years.

"You know, Guillotin, you could have something here."

Agriculture

Rob Talbot leads move to free-market farming

THE rural community can be forgiven for wondering about the Government's attitude to free enterprise.

The backbone of the economy — the traditional farmer — will be given comfortable support by next season's seemingly over-generous supplementary minimum payments, which guarantee increases in income. That generosity may force the Meat Board into compulsory purchases of all lamb and mutton for export as meat exporters fail to pay the minimum schedule prices.

At the other end of the scale, there has been a quiet revolution — a private enterprise awakening. For two years, Agriculture Under-secretary Rob Talbot has been stomping the land telling pig farmers, egg producers, horticulturalists, grain growers, town milk producers and any other group that has the temerity to invite him that the days of Government support and regulation to ensure their survival are over.

"It is part of the Government's basic philosophy of removing itself from the affairs of individual sectors of the agriculture industry, wherever possible," he tells audiences.

Addressing poultry farmers, who seem to have borne the brunt of Talbot's forthrightness, he recently said: "In my view this new approach has been one of the most important redirections in farming in recent years. At long last we are getting a more involved and market-orientated farming industry and one that will develop more positively with the Government out of the way.

"This policy, which is here to stay, has given the poultry industry a new challenge — a challenge to encourage even greater efficiencies of production within the industry.

"You will have to ensure even more so than in the past that the industry does not shelter behind a wall of cost-plus price control measures, measures which do ensure basic profitability to the average egg producer."

Bluntly, the message has been efficiency or bust. There are alternative uses for land and resources which may be more profitable for the nation.

Pig farmers received a similar message, when a glut brought on partly by a flood of cheap imports sent prices plummeting early in 1980.

There are other manifestations of the philosphy. Wheat prices have been tied to international market prices and restrictions on barley exports have been lifted, allowing the almost immediate formation of a South Island farmers' co-operative to gain the best prices on the world market. To ensure the local market is not starved, restrictions on imports have also been lifted.

The Citrus Marketing Authority was allowed to fold when growers fell out over its marketing strategy, rabbit farming and opossum farming was permitted despite strong objections from the Pest Destruction Council, and the town milk industry was restructured to allow cost saving rationalisation and greater emphasis on marketing.

Each sector claims it has brought about the changes despite the messages delivered by Talbot.

The momentum undoubtedly grew from grass-roots expressions of concern at growing Government intervention and regulation in all sectors of society. That message was articulated by up-and-coming elements in the National Government after the 1978 election.

Agriculture Minister Duncan MacIntyre is credited by industry sources and observers as having quickly taken the cue. His caucus agriculture committee, chaired by Talbot, is stacked with MPs regarded as being in the free enterprise lobby — Doug Kidd, Geoff Thompson and Ian MacLean.

Talbot is also credited with being a keen advocate of the philosophy, although the text of his message is attributed to MacIntyre and the caucus committee.

Appointed after the 1978 election, Talbot was unkindly referred to as the Minister of Small Seeds (he represents Ashburton in the heart of the Canterbury grain-cropping region). MacIntyre kept responsibility for mainstream, politically important farming activities: meat, wool and dairying. Talbot was given the rest.

Poultry producers were the first to encounter Talbot as Under-secretary. The Poultry Board was then seeking Government authorisation to increase levies and endorsement of a policy to effectively eliminate small-scale egg producers.

The result was a caucus subcommittee to look at the heavily controlled egg industry, which was then attempting to scramble away from over-production with more controls.

Poultry Board general manager, Glenn Kermode, says the exercise proved useful.

The self-appraisal brought positive results, although Kermode doubts that there has been a change in direction of the industry. The board's submissions to the caucus subcommittee were strong enough to persuade the Government that until 1982 at least, the board's plans coincided with what was deemed necessary to avoid an egg glut.

To strengthen the board's marketing arm, it was formally merged with the Egg Marketing Authority.

"If it had not been done then — throughout 1979 and early 1980 — it would have come about before too long," he said.

Similarly, the Pork Industry Council met an initially unsympathetic ear when it sought Treasury finance to buy up surplus pork in the glut early in 1980 resulting from an earlier Government decision to allow imports for the previous Christmas market.

Import restrictions were eased on a range of items as part of the Government's case in GATT negotiations to win access for exports to other markets.

The outcome was a $750,000 promotion campaign by the pork industry.